HRVATSKA POŠTANSKA BANKA d.d.

Financial Statements
and Independent Auditor's Report
For the Year Ended December 31 2012

Zagreb, March 2013

Contents

Introduction

The Annual Report comprises summary of financial information, description of operations and the audited financial statements, including Independent auditors' report for the year ended 31 December 2012, in Croatian and English.

Legal form

The Annual Report comprises the annual financial statements prepared in accordance with accounting regulations applicable to banks in the Republic of Croatia and audited in accordance with International Standards on Auditing.

The Annual Report is prepared in compliance with the Accounting Law and the Companies Act, which prescribe reporting of the Management Board to the shareholders at the General Assembly. According to the Accounting Law the statutory financial statements are statement of financial position, income statement with statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the financial statements, and the Companies Act, paragraph 250.a and 250.b, prescribes submission of the Annual Report showing the position of the Bank and other members of the HPB Group and consolidated Annual Report of the Group.

Abbreviations

In the annual financial statements, Hrvatska poštanska banka d.d. is referred to as “the Bank” or “HPB”, Hrvatska poštanska banka Group is referred to as “HPB Group” or “the Group” , the Croatian National Bank as “the CNB”, the Republic of Croatia as “RH” and Croatian Bank for Construction and Development as “HBOR”.

Exchange rates

The following CNB exchange rates were used for translation of foreign currencies into Croatian kuna:

31 December 2012	1 EUR = 7.545624 KN	1 USD = 5.726794 KN
31 December 2011	1 EUR = 7.530420 KN	1 USD = 5.819940 KN

Summary of operations and key financial indicators

in HRK million

Group	2012	2011	2010	2009	2008
Key indicators					
Net profit/ (loss) for the year	102	86	52	(447)	4.5
Total assets	17,266	16,692	14,978	14,108	14,710
Loans and advances to customers	10,769	9,709	8,946	7,869	8,129
Deposits	13,634	12,988	11,381	10,701	11,116
Equity	1,411	1,243	1,182	637	911
Other indicators					
Return on share capital	10.57%	9.10%	5.40%	-68.29%	0.77%
Return on assets	0.59%	0.51%	0.35%	-3.17%	0.03%
Operating expenses[1]/operating income ratio	63.61%	71.03%	71.62%	85.45%	75.99%
Regulatory capital	1,702	1,514	1,681	1,037	1,197
Capital adequacy	15.05%	14.28%	16.99%	10.32%	11.53%

Bank	2012	2011	2010	2009	2008
Key indicators					
Net profit/ (loss) for the year	94	88	51	(449)	9
Total assets	17,045	16,452	14,787	13,981	14,637
Loans and advances to customers	10,679	9,622	8,873	7,823	8,097
Deposits	13,449	12,766	11,208	10,585	11,044
Equity	1,411	1,255	1,190	647	924
Other indicators					
Return on share capital	9.73%	9.08%	5.26%	-68.59%	1.49%
Return on assets	0.55%	0.53%	0.34%	-3.21%	0.06%
Operating expenses[1]/operating income ratio	63.63%	70.15%	71.00%	85.37%	75.69%
Regulatory capital	1,669	1,492	1,654	1,012	1,156
Capital adequacy	14.89%	14.20%	16.82%	10.13%	11.19%
Return on capital [2]	7.81%	8.00%	5.99%	-59.07%	0.94%
Return on capital – Croatian banking sector	5.39%	7.85%	6.81%	6.64%	10.29%

[1]general and administrative expenses, depreciation and other expenses

[2] return on average capital ratio is net profit after tax and average capital ratio, calculated according to the methodology prescribed by the Croatian National Bank

President of the Supervisory Board's Statement of Condition

Esteemed shareholders, business partners and clients, it is a great honour to present to you Group's and Bank's results for the year ended December 31 2012, on behalf of Supervisory board of Hrvatska poštanska banka.

Very complex macroeconomic enviroment during 2012 – mainly reflected through decrease in real GDP by 2.0 percent, had negative impact on Croatian banking sector. Consequently, sector's net profit plummeted by 27.6 percent, while assets decreased by 1.6 percent.

Deteriorated profitability is derived from higher interest expenses (increase of 9.1 percent) and higher provisions for impairment losses (increase by 11.8 percent) which have led to higher portion of non-performing loans in total loans, equaling 13.8 percent.

On the other hand, decrease in assets arises from return of foreign sources of funding by domestic subsidiaries to parent banks abroad.

Despite these demanding circumstances, the Bank improved business results in 2012 represent a continuation of a trend that started in 2010. Accordingly, net profit for 2012 amounts to HRK 94.1 million, representing an increase of 7.0 percent compared to previous year. Net profit growth in 2012 is a result of an increase in operating income by 2.7 percent and simultaneous decrease in operating expenses by 6.8 percent. Earnings per share has been increased from HRK 100,14 (2011) to HRK 107.14 in 2012.

Bank's assets increased by 3.6 percent, whereat it is important to emphasize growth of loans and advances to customers by 11.0 percent and customer deposits (excluding deposits from banks) by 1.9 percent whilst retail deposits increased by 4.4 percent. As a result of both Bank's growth in 2012, as well as decline of banking sector, Bank's share in gross loans increased from 3.6 to 4.2 percent. Meanwhile, share in total deposits increased by 0.3 percentage points compared to the end of 2011, and equals 4.8 percent.

Continuous endeavours made to make Banks' products and services more accessible to its clients Bank, is reflected through expansion of its business network by opening five new business units. Sixty business units thereby cover almost all Croatian regions. Furthermore, Bank enhanced its competitiveness by launching a range of new products.

I would like to thank and congratulate Management Board, as well as all employees of Hrvatska poštanska banka and other members of HPB Group, on results accomplished in 2012. I would also like to thank my colleagues in the Supervisory Board on their cooperation. Above all, I express my sincere gratitude to clients who chose HPB as their business partner.

Dražen Kobas
President of the Supervisory Board

President of the Management Board's Statement of the Bank's Condition

Dear clients, shareholders and business partners,

it is an exceptional pleasure and honour to present to you, on behalf of Management Board, results of Hrvatska poštanska banka and other HPB Group members for the year ended 31 December 2012.

Absence of wanted economic growth in eurozone had an impact on Croatian economy. Consequently, this also had an effect on Croatian banking sector. Such demanding environment represented additional challenges to banks and their achievement of positive business results.

Quality of service, innovations and readiness to adjust to ever changing circumstances contributed to realization of very good business results of HPB Group, in spite of all negative external conditions and challenges. HPB Group thus continues to fulfill set goals.

Unconsolidated financial results of the Bank

Hrvatska poštanska banka realized net profit amounting to HRK 94.1 million in 2012, representing an increase of 7.0 percent compared to 2011. Bank's assets increased by 3.6 percent amounted to HRK 17.0 billion at 2012 year-end. Bank's market share has thereby been increased from 4.0 to 4.3 percent. This growth is especially significant because it was driven by loans to customers, both corporate and retail.

Abovementioned loan portfolio growth during 2012 generated higher interest income (increase by 2.1 percent) compared to previous year, but with lower average interest rates. At the same time, due to deposit growth and change in their structure benefiting term deposits, interest expense increased by 8.1 percent.

Cooperation with business partner in payment operations, regulatory changes and improvement of position in competitive banking market resulted in lower fee and commission income. Consequently, net fee and commission income decreased by 5.7 percent compared with previous year, corresponding with banking sector movements.

Trading income amounts to HRK 11.2 million despite financial market volatility. Furthermore, Bank has surpassed last year's income from foreign currencies dealings.

The Bank puts great emphasis on rational cost management. General and administrative expenses have accordingly decreased by 6.8 percent. Decline of these expenses and operating income growth resulted in improved C/I indicator, which is reduced for a third year in a row, decreasing 70 percent in 2011 to 64 percent in 2012.

Operating profit (profit before provisions) amounts HRK 265.7 million, which is 24.8 percent higher than in 2011. A substantial part of Bank's operating profit was provisioned for impairment losses and liabilities, charging 65 percent of operating profit.

Gross loans to customers increased by 11.4 percent during 2012. Within customer loans' growth structure, significant increase of 13.5 percent relates to gross retail loans, with gross corporate loans increasing by 10.5 percent. Achieved results have even greater weight if compared with trends in Croatian banking sector, where gross loans have decreased in 2012.

Bank's total deposits at the 2012 year-end amounted to HRK 13.4 billion, having increased by 5.4 percent compared to 2011 year-end. Taking into account Bank's aspirations to maintain loyalty and satisfaction of its clients, we emphasize retail deposits growth by HRK 324 million or 4.4 percent.

Capital adequacy ratio equals 14.89 percent at the end of 2012, representing an increase of 0.7 percentage points compared to 2011. Higher capital requirement for credit risk was thus completely neutralized by acumulation of net profit within capital reserves.

Aiming to increase accessibility of services and products to its clients, Bank has continued to expand branch network during 2012, by opening five new business units (Knin, Rijeka, Čakovec, Zagreb-Špansko and Šibenik). Thereby, with 60 own business units and through more than 1,000 postal offices, Bank covers all parts of Croatia. Expansion of ATM nework (+5%) and EFT-POS terminals network (+2%) has not been not neglected either.

Introduction of new products during 2012, especially VISA instalment card, mbanking and HPB Kockica gift certificate, additionally enhanced Bank's competitiveness.

Bank has successfully finished several projects during 2012, including implementation of new application for effective client relationship management and data warehouse and business intelligence project. Expansion of distribution channels and conclusion of abovementioned projects is contributing, apart to improvements of reporting and management system, to realization of Bank's mission and vision. All this with ultimate objective to increase quality, volume and scope of Bank's business.

Consolidated financial results of HPB Group

HPB Group, apart from parent company – Hrvatska poštanska banka, comprises HPB Stambena štedionica, HPB Invest (investment fund management company) and HPB Nekretnine (company specialized in real estate business). HPB Stambena štedionica realized net profit amounting to HRK 8.3 million during 2012. Furthermore, HPB Nekretnine continued with consistent financial results, achieving net profit of HRK 0,4 million, whilst HPB Invest generated a net loss in amount of HRK 0,2 million.

Group's consolidated 2012 after-tax profit amounts to HRK 102,2 million, representing an increase of 19.2 percent compared to previous year. Assets of the Group increased by 3.4 percent, relating almost entirely to the Bank.

Such good business results would not be possible without trust put into HPB Group by it's clients. Therefore, I sincerely thank them and express my wish that our successful cooperation should continue in the future. I would also like to thank Bank's and other Group members' employees for their contribution to our success by their dedicated work. Finally, I would like to thank our shareholders and Supervisory board members on their support.

mr. Čedo Maletić
President of the Management Board

Macroeconomic movements in Croatia during 2012

After economic stagnation in 2011 negative trends have arisen again in 2012. This was influenced by unstable situation on foreign financial markets and lack of economic growth in countries with which Croatia trades goods.
Decrease in GDP, especially in the last quarter of 2012 when rate of decline was accelerated, as well as reduced expectations of economic growth in the region, indicate towards double-dip recession. Recovery of Croatian economy could thus be moderate in 2013, with significant improvements to be expected in 2014.

Signicant macroeconimc indicators

Indicator	**2012**	**2011**	2010
GDP, % change	(2.0)	0.0	(1.2)
Registered unemployment rate	21.1	17.8	17.4
Personal consumption, % change	(2.6)*	0.2	(1.3)
Investements, % change	(4.6)*	(7.2)	(15.0)
Exports of goods and services, % change	0.0*	2.0	4.8
Imports of goods and services, % change	(1.4)*	1.2	(2.8)
Industrial production, % change	(5.3)	(1.2)	(1.4)
Consumer prices, % change	3.4	2.3	1.1
Tourism (number of nights), % change	4.0	7.0	2.6
External debt, % of GDP	98.7*	99.6	101.2
Exchange rate HRK:EUR, annual average	7.52	7.43	7.29

Source: Central Bureau of Statistics, CNB
*estimate

Banking sector in Croatia

Increase in banks' interest expenses, especially in the first half of 2012, combined with declining placements and increased provisions for loan risk, contributed to decreased profitability of banks (by 27.6%) compared to 2011.
However, banking sector remains well capitalized, with capital adequacy ratio of banks equaling 20.55% according to unaudited data for 2012.
Continued recession has caused loan demand to decrease. Banks have therefore used funds made available through reduction of obligatory reserve mainly for repayment of foreign liabilities, that have become more expensive due to higher country risk premium.
These developments had an impact resulting in a decrease in banking sector's total assets by 1.6% compared to 2011. Total assets therefore amounted to 400.3 billion HRK at the end of December 2012.

The labor market

Weakening of economic activity, particularly evident in the last quarter of 2012, resulted in unusually strong increase in unemployment compared to previous periods. Reduced number of emloyed individuals was recorded in almost all sectors, with the exception of administrative and service industry, civil service and other services, where slight increase or stagnation of employment had been recorded.

Taking inflationary movements into account, purchasing power of average wage of Croatian workers continued to decrease in real terms, whereas nominally it remained unchanged at 2012 year-end compared to 2011.

Inflation

Inflatory pressures, which have led to a rise of consumer prices in 2012 by 3.4%, commenced in spring 2012 and have intensified towards the year end. Accordingly, inflation could weaken in 2013 because of higher transfer from 2012, whereat impact of lower price difference will cummulate during greater part of the year. Reduction of domestic demand, caused by mentioned diminished purchasing power, presents an additional factor causing inflation to decline in 2013.

Foreign trade

Continued reduction of external debt is resulting mainly from recovery of exports combined with a simulaneous decrease in imports. This was initiated mostly by exports of chemical and pharmaceutical, as well as metal processing industry. As opposed to this, food and fuel are most important imported products, whilst motor vehicle imports plummeted significantly.

Monetary policy

High liquidity of the banking system was supported by CNB throughout the whole of 2012, in order to positively impact the conditions for financing of economic entities. By reducing the obligatory reserve requirement from 15,0% to 13,5%, CNB has released approximately 5 billion HRK to the banking system. Goal of obligatory reserve reduction was the recovery of economy through cooperation between HBOR and commercial banks. However, such positive impact on liquidity of the banking system did not result in increased level of corporate loans. Loans remained on the same as last year (if one should ingnore transfers of bad loans to foreign institutions).

Most significant change in HRK/EUR rate was recorded after the end of tourist season, after which exhange rate stabilized, equalling 7.545624 HRK at the end of December, representing an increase of 0.2% on annual basis.

Public finance

Despite the decline in economic activity, government revenue was compensated through increased tax burden (mainly by increasing VAT rate from 23% to 25%). Furthermore, better tax collection and reduced government expenditure resulted in a decrease of central government deficit.

However, central government debt had increased during 2012 due to dockyard debt takeover in amount of app. HRK 5 billion, by Croatian Ministry of finance.

Description of the Group's operation

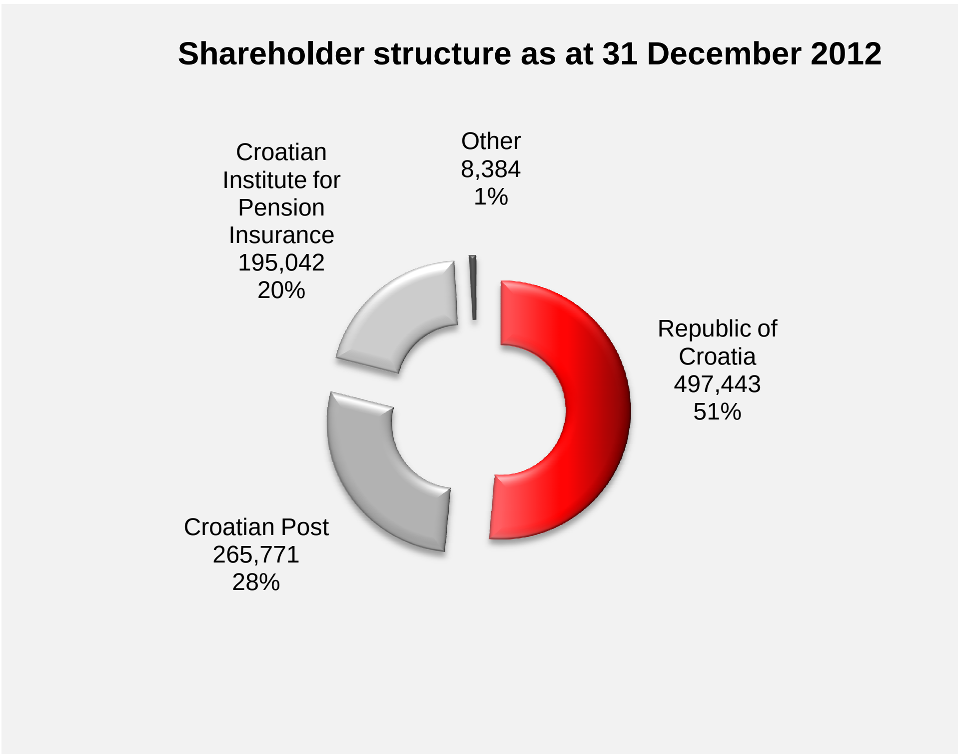
Hrvatska poštanska banka d.d.

Hrvatska poštanska banka d.d., Zagreb, was founded and registered as a joint stock company in accordance with applicable regulations of the Republic of Croatia, and is authorized to perform banking activities in the Republic of Croatia. The Bank's Management Board is in Jurišićeva 4, in Zagreb. At 31 December 2012, the Bank operated through eight branches, thirty nine outlets and thirteen detached tellers.

The Bank's main activity is operation in all kinds of deposit and loan activities for corporate and retail customers in domestic and foreign currency, performance of domestic and foreign payment transaction activities, issue of guarantees, sureties and other forms of guarantees, foreign currency and securities trading and other banking activities.

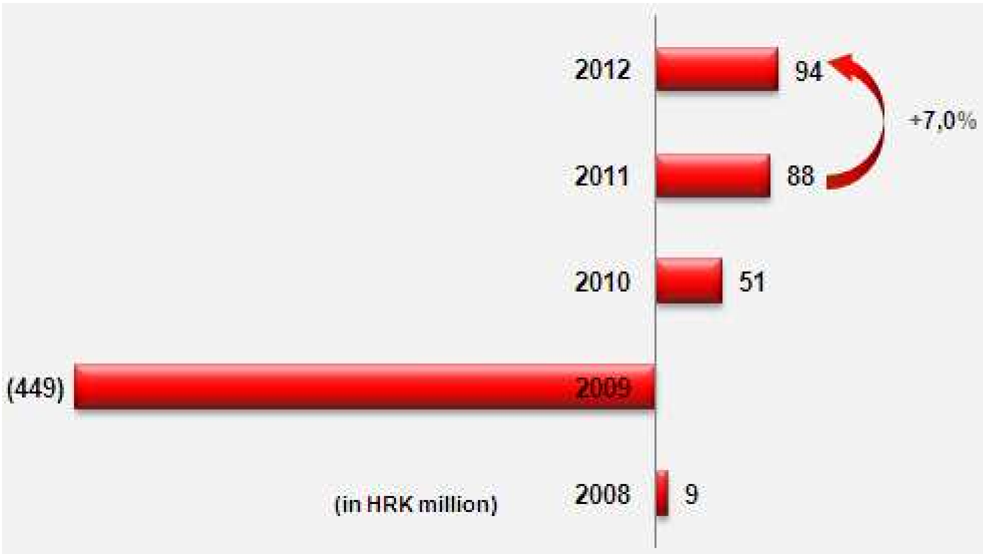
As a bank under domestic ownership, HPB is ranked seventh among 31 banks in Croatia, with assets amounting to HRK 17.0 billion.

The Bank is 100% owner of HPB Stambena štedionica d.d., HPB Invest d.o.o., investment fund management company, and HPB Nekretnine d.o.o., company for real estate and construction, which together form the HPB Group.

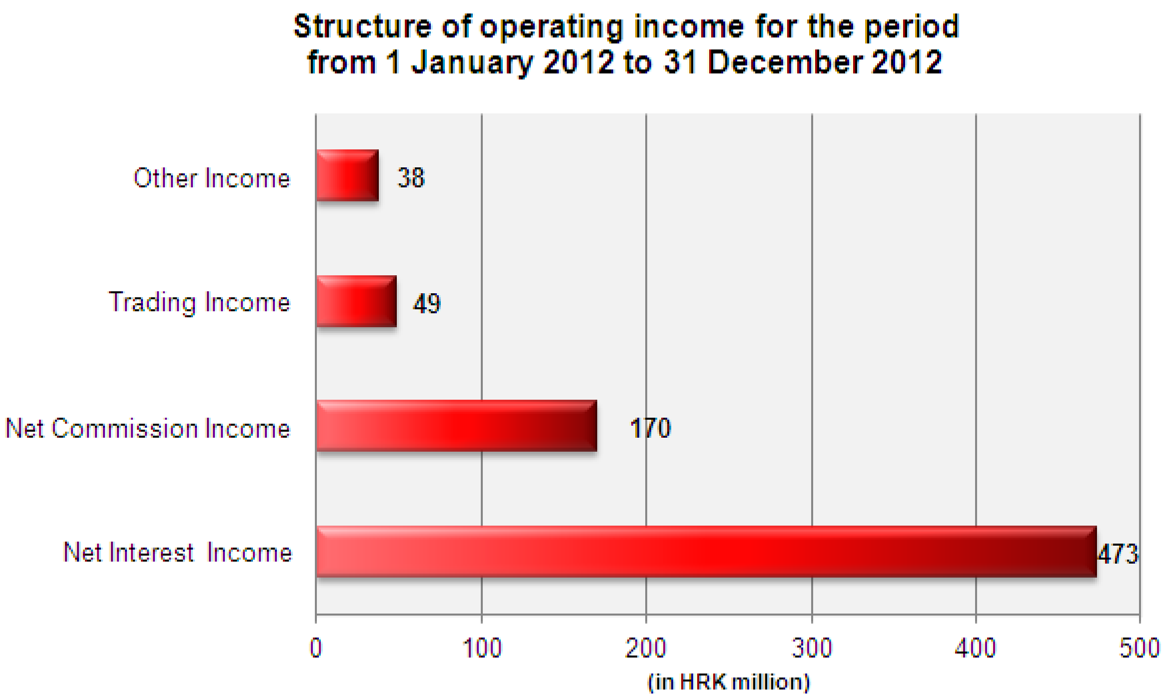


Bank has realized profit after tax in the amount to HRK 94.1 million during 2012. Profit before provisions for impairments amounted to HRK 265.7 million, and provisions for impairment losses on loans and other assets amounted to HRK 148.8 million. Meanwhile, provisions for expenses and liabilities amounted to HRK 23.2 million.

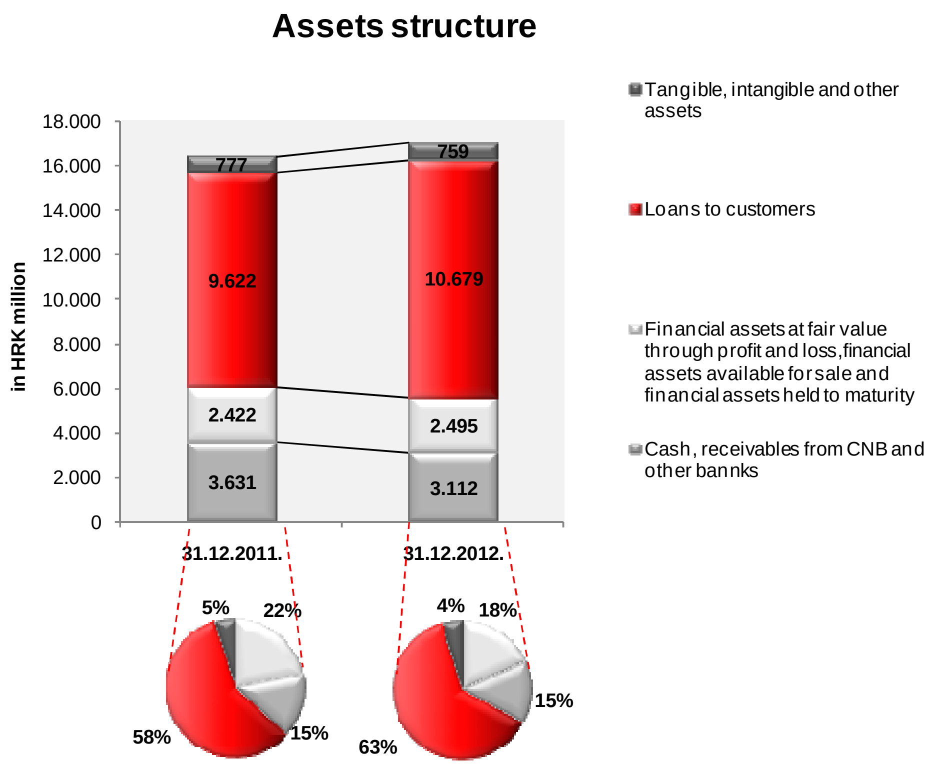
Net profit/(loss)



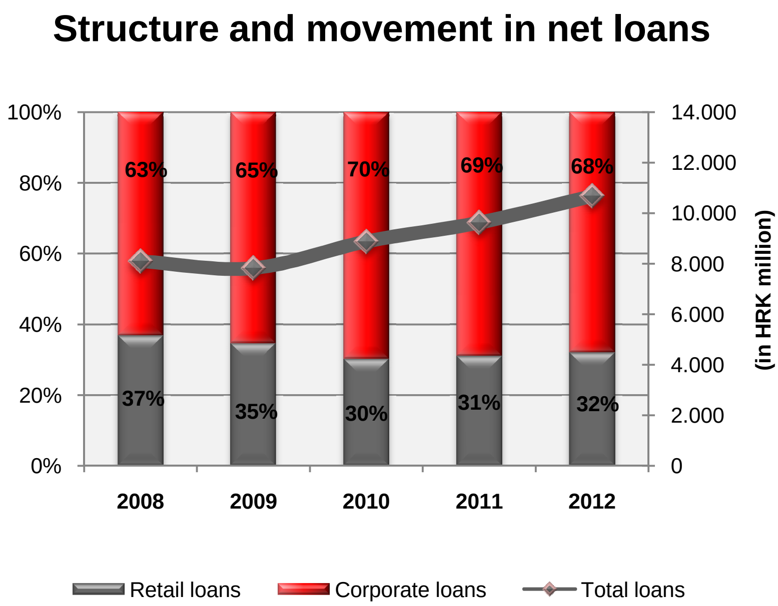
Total operating income has been increased by 2.7% compared to 2011. Most significant part of operating income is net interest income, representing 64.8% (HRK 473.3 million) of total income.



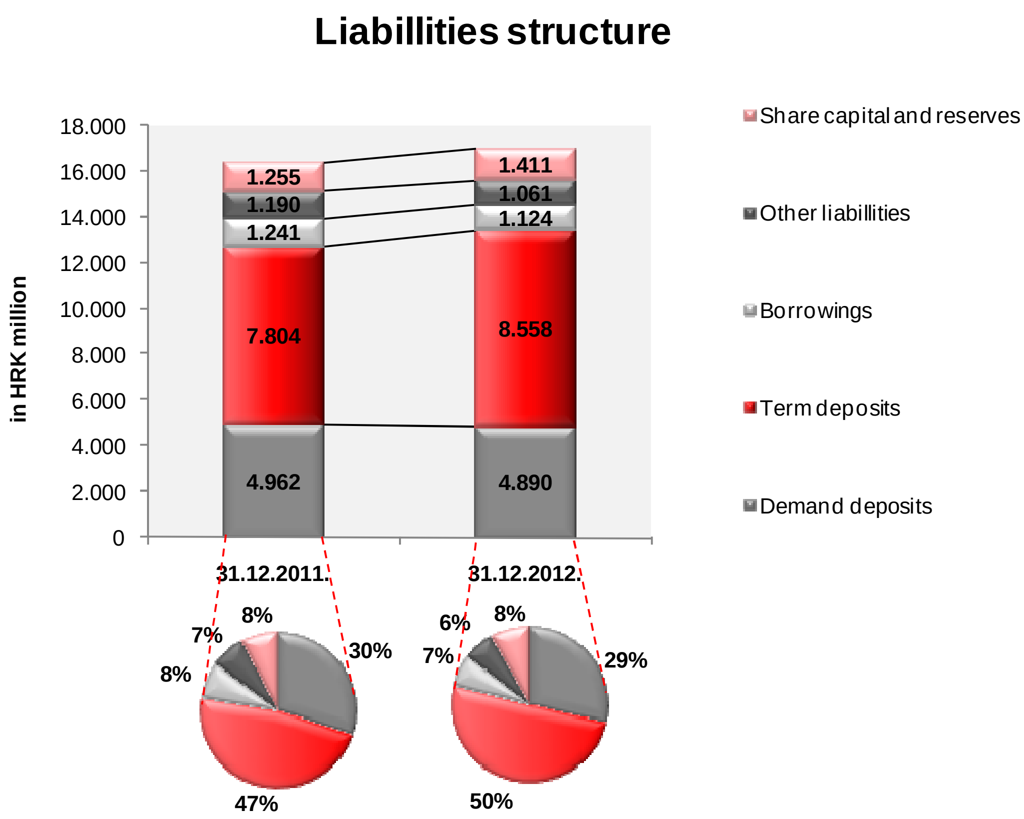
At 2012 year-end, the Bank's assets amounted to HRK 17,045 million, representing a HRK 593.6 million or 3.6% increase compared to 2011. Major part within assets' structure are loans and advances to customers with a share of 63.0%. Furthermore, placements with and loans to other banks and the CNB obligatory reserve represent 18.0% of assets, and financial assets at fair value through profit or loss have a share of 8.0 percent.



As per 31 December 2012, total loans amounted to HRK 10,679 million, representing a 11.0% increase compared to 2011. Loan portfolio structure is comprised of corporate loans (68.0%) and retail loans (32.0%).

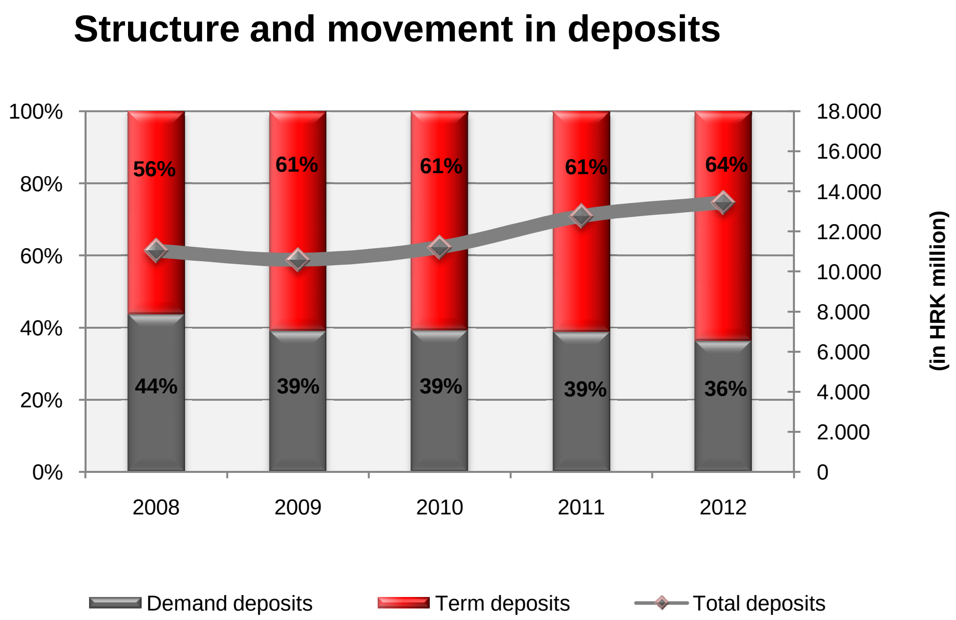


Liabilities constist mainly of term deposits (50.0%) and demand deposits (29.0%).



Deposits from customers increased by 1.9% in 2012, while growth of total deposits (including deposits from banks) equals 5.4 percent.

Deposit structure is dominated by term deposits (63.6%), followed by demand deposits (36.4%). Term deposits have increased by 9.7%, with their share within the structure of total deposits increaseing by 2.5 percentage points (from 61.1% to 63.6%). Demand deposits have decreased slightly in 2012, by 1.4 percent.



Retail operation

HPB performs retail operation through its own operational network which comprises 8 branches, 39 outlets and 13 detached tellers. Retail services are also offered through more than 1,000 post offices throughout the Republic of Croatia.

Aimed to improve offer of its products and services to clients, Bank has during 2012 opened three new outlets in Rijeka, Čakovec and Zagreb and detached tellers in Knin and Šibenik.

Alongside branch network expansion, HPB continued to develop and improve direct banking distribution channels by installing 15 new ATMs and 36 EFTPOS terminals. At the end of 2012, Bank had its own network of 317 ATMs and 1,915 EFTPOS terminals.

In 2012 the Bank continued with introduction of new credit and savings products, and customized them to meet the requirements of customers, introduced regular sales promotions, raised the quality level of services in order to ensure the loyalty of existing customers and obtain new customers.

Within overall structure of deposits, retail deposits constitute 58.0% of total deposits. In the past year they have increased by 4.4% and at 31 December 2012 amount to HRK 7.79 billion. Therein, demand deposits amount to HRK 2.25 billion and term deposits amount to HRK 5.54 billion (increase of 4.0 percent). High growth of term deposits was driven by business network expansion, and stimulative interest rates on term savings during 2012.

Gross retail loan portfolio amounted to HRK 3.8 billion at 31 December 2012. Within total gross loans structure, retail loans have a share of 32.1 percent.
On the other hand within retail loans structure, major part relates to commercial loans followed by overdrafts. Meanwhile, share of housing loans is increasing, with a growth rate of 27.5 percent (+HRK 145.8 million) during 2012.

Among other activities within retail operation we point out continued improvement of business cooperation with Hrvatska pošta and FINA.

Introduction of special offer of products and services, enabled the Bank to create conditions for direct presentations and active selling to targeted client group. Range of cooperation with state institutions has therefore also increased.

Corporate operations

Corporate division provides banking services for more than 9,000 active clients, ever striving to improve services and introduce innovations in order to meet customer needs better.

Corporate operations were primarily impacted by continuation of economic crisis and slow economic recovery in Croatia. However, even in this challenging macroeconomic conditions, many positive developments were achieved in this segment.

Accordingly, gross corporate loans increased by 10.2% compared to 2011, and at the end of 2012 amounted to HRK 8.0 billion.
Loan structure is dominated by loans to companies with a share of 64.9% (2011: 82.6%), followed by loans to government units representing 33.4% (2011:15.8%) of total corporate loans. Event that caused the change in loan structure during 2012 was the takeover of dockyard debt by Croatian government in the first half of the year. Therefore, loan sectorization was changed from companies to government unit in the amount of 1.0 billion HRK.

As per 31 December 2012 total deposits of legal entities (excluding deposits of banks) amounted to 5.15 billion HRK, wherewith term deposits have increased 3.6%.

Alongside ignition of collaboration with HBOR and HAMAG, Bank will during the next period continue to intensely cooperate with and provide loan support to legal entities, government units, local government, while maintaing high standards in credit risk management.

Investment banking

Within the frame of brokerage activities, the Bank has during 2012 continued with trading and intermediation services on domestic, regional and world financial markets.

Slight economic growth of developed countries ignited certain optimism and occasional growth, but with many fluctuations and uncertainties on developed capital markets.Croatian capital market stagnated during 2012. This stagnation was characterized by very low liquidity, which is reflected through partial withdrawal of funds in asset management segment, resulting in total value of assets under management by the Bank’s Asset management amounting to HRK 147.1 million as per 2012 year-end.

Bank continued to provide custody and depositary services during 2012, on domestic, as well as on international financial markets. As per 31 December 2012 total asset with Bank's custody amounted to HRK 3.5 billion (including assets of HPB Group member’s investment funds), while total asset of investment and pension funds, where Bank acts as a depositary bank, amounted to HRK 3.2 billion.

Treasury operation

Bank's and Treasury operations on the money market during 2012 was very challenging considering high volatility of the system during first half of the year, as well as extremely high liquidity, which culminated at the end of the year.

Beginning of the year was characterized by continued growth pressures on EUR exchange rate, so the CNB intervened several times and thus decreased HRK liquidity causing a rise in interest rate on the money market.

CNB reduced obligatory reserve to 13.5 percent in April 2012. Situation was therefore reversed, and interest rates have been decreasing throughout the rest of the year. This was contributed by growing deleveraging of individuals and lack of quality loans to corporate sector.
Treasury Division has in such conditions distributed liquidity surplus by buying stakes in open-ended investment funds during fourth quarter of 2012.
Throughout the entire period the Bank retained its position as one of the leading banks on domestic money market, successfully maintaining prescribed coefficients and liquidity ratios.

During 2012 the Bank continued to participate in arrangement of several syndicated loans and bond issues by leading Croatian companies and Ministry of Finance.

Also, the Bank has reduced its portfolio of treasury bills and government bonds. Funds obtained this way were used for corporate loan placements and for closure of foreign exchange swaps.

Treasury sales section and Foreign currency trading section have increased Bank’s activity in contracting spot or forward foreign currency transactions with for corporate clients. Trading on Croatian foreign currency market was marked by growth of EUR/HRK exchange rate that caused CNB to intervene in order to prevent further growth of the exchange rate. In spite of narrowing of FX spreads and great market competition, Bank has managed to realize higher net gain from currency trading compared to 2011.

The Bank continued to cooperate successfully with FINA cash service through collection center business. Number of partner-banks and exchange offices with which the Bank cooporates has been increased. This confirmed Bank’s status as one of the most important participants in cash trading on Croatian market.

Internal controls system and internal audit

Internal controls are a constituent part of the managing process of the management and all employees of the Bank and represent a reasonable guarantee that business goals will be achieved in a scheduled manner within a given time frame, by applying current regulations.

Additionally, goal of internal controls and control procedures is to ensure the precision and reliability of the Bank’s financial data, and are divided to administrative-accounting controls, detection controls and correction controls.

Supervision of elements of internal control, which are established by internal acts and procedural documents, is carried out by accountable persons of business areas and by functions of internal audit.

Principles of the internal control system are reflected through:

- clear lines of responsibility;
- separation of duties and activities;
- specific control procedures; and
- internal audit function.

Internal audit

Internal audit is organized as an independent organizational part, and is based on professional principles of internal auditing, alongside associated laws and regulations.

Audit is performed in accordance with general internal audit standards and regulatory requirements, in four phases, as follows:

- planning;
- research;
- reporting; and
- results monitoring.

Planning is conducted through documented risk assessment. Yearly Operational Program is adopted by the Management Board with prior consent of the Audit Committee and the Supervisory Board.

Report on audit results is submitted to the subject of internal audit, amenable member of the Bank's Management Board, and Audit Committee. Information system audit reports are submitted to the Operational Risk Committee and subsequently to the Management Board and the Audit Committee.

Internal audit office also drafts Reports on operations which are submitted to the Management Board, Audit Committee and Supervisory Board.

Development plan

The Bank is in the process of business expansion, with increased market share in the segments that are strategically committed. Business development of the Bank takes place in an extremely unfavorable macroeconomic conditions and decline in economic activity, with indications that in 2013 will not be any significant economic recovery.

Uncertainty about future macroeconomic developments, as well as on the content of upcoming regulatory changes, is a factor in the planning of operations. However, readiness to adjust these circumstances will enable the business potential of the Bank to be strongly used in the future in order to achieve the objectives in the direction of increasing profitability and efficiency.

An important event that will affect the financial and business identity of the Bank is announced privatization and recapitalization in 2013. The inflow of new capital would enable the realization of further expansion and growth in market share. However, regardless of the availability of capital, the Bank still has a clear intent to continually improve its services and products, in order to maximize the satisfaction of existing clients and acquire new customers.

The bank will also focus to expand its branch network in order to better service the needs of customers and increase presence of brand Hrvatska poštanska banka. Accordingly, in 2013 it is planned to open five new branches, and to strengthen the distribution network of ATMs.

Due to its comparative advantage over its competitors, which is primarily related to long-term cooperation with Hrvatska pošta d.d., the Bank will in this segment too seek to increase business and financial potential.

Unavoidable foundation of all plans of the Bank are its employees, who will continue to contribute to the vision that HPB becomes the most accessible, efficient, and innovative bank in the Croatian market.

Risks exposure

The most important types of risks to which the Bank is exposed are credit risk, liquidity risk, market risk, currency risk, operational risk and interest rate risk in the Bank’s non-trading book.

Bank is subject to credit risk through its lending and investing activities and in situations where it acts as an intermediary on behalf of customers or other third parties. The Bank’s primary exposure to credit risk arises from loans to and advances to customers. Amount of credit exposure in this regard, and in respect of held-to-maturity debt securities recognized at amortized cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance-sheet items, through commitments arising from undisbursed loan commitments and guarantees issued.

Main categories of liquidity risk to which the Bank is exposed are: liquidity financing risk (structural liquidity risk) and market liquidity risk.

Exposure to market risk occurs in respect of balance sheet and off-balance-sheet positions recognized at fair value, including financial assets held for trading, financial assets available for sale and positions denominated in foreign currency (including placements and liabilities linked to foreign currencies via foreign currency clause).

Exposure to interest rate risk in the Bank's non-trading book arises as a consequence of mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps) and various natures of interest rates (referent interest rates), by which the Bank contracts placements and sources of funding.

Operational risk is attributable to all of business activities, processes, products and systems of the Bank. Operational risk is a risk of an event which inflicts losses on the Bank, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk.

Detailed description of risk management of the Group and the Bank is outlined in note 2, within financial reports.

HPB Invest d.o.o.

HPB Invest d.o.o. (in further text referred to as Company) is a company for investment funds management, which was founded on July 19 2005 and is 100% owned by Hrvatska poštanska banka. Company started with operations on October 5 2005, and Shareholder's capital amounts to HRK 13.5 million.

As per December 31 2012, the Company manages seven open-end investment funds with public offer. The Company also manages retirement fund, which is fund of special purpose established by the Government of Republic of Croatia for repayment of pensioners' debt.

Total assets under management of Company's open-end investment funds with public offer amounts to HRK 486.0 million, representing a increase of 57.33 percent from the beginning of the year.

Structure of assets under management is as follows:

Fund	**Assets under management HRK '000**	**Yield from the beginning of the year %**
HPB Dionički fund	15,292	0.27%
HPB Global fund	55,697	(12.55%)
HPB Novčani fund	363,462	2.77%
HPB Obveznički fund	21,223	10.16%
HPB Titan fund	4,662	8.39%
HPB WAV	12,452	14.61%
HPB Euronovčani fund	13,018	2.99%

As per December 31 2012, total balance sheet of the Company amounts to HRK 20.5 million, with after-tax loss amounting to HRK 0.2 million.

Development plan

The goal of the Company is investment fund management and growth of assets under management with growth of market share. Precondition for the above is achievement of competitive yield and increased sale activities through Bank's distribution cannels. The company will continue to be devoted to professional asset management as well as to providing high quality services to its clients in order to ensure the preservation of sustainable growth of financial assets. With continuous investment in development policy of the Company, which involves continuous professional, personnel, organizational and technological advancements, with more and more demanding legal and regulatory adjustment of operations, HPB Invest will provide a long lasting and attractive range of funds and investment products, that can, with professional management and adequate yields, meet the needs of investors, depending on their investment objectives, investment horizon and risk appetite.

Risks

The most significant types of financial risks which affect the Company are: credit risk, liquidity risk, market risk and operating risk. Market risk includes exchange rate risk, interest rate change risk and price risk. Company is not significantly exposed to liquidity risk, and according to assessment of the Company, no risk exists that it will not be able to settle its short term obligations. Most of the Company's assets are interest bearing, whilst most of the financial liabilities do not bear interest. Interest rate risk is linked with exposure to placements to banks. Company manages operational risks itself.

HPB Stambena štedionica d.d.

HPB Stambena štedionica (in further text: “Štedionica“) is a credit institution which collects deposits from citizens and approves housing loans with state subsidies.

As the fifth largest on the savings-banks market, Štedionica has almost 82,489 registered savings contracts at the end of 2012, with a value of EUR 381 million.
Sales is taking place in outlets of Hrvatska poštanska banka and Hrvatska pošta outlets and through 12 authorized agents.

Štedionica contracted 17,896 new housing savings contracts during 2012, representing a 11.0 percent increase compared to the last year.

As before, the parent company - Hrvatska poštanska banka, was the primary housing savings sales channel during 2012, brokering 10,516 or 59.0 percent new savings contracts, while 39.0 percent or 7,001 of new contracts were brokered through Croatian Post's offices. Authorized agents brokered 2.0 percent or 379 new contracts.
Simultaneously, value of newly approved loans increased by 3.7 percent compared to the end of previous year.

Operating income amounting to HRK 8.7 million was achieved during 2012, with net profit amounting to HRK 8.3 million. Profit is mainly a result of unrealized gains from Government securities that Štedionica possesses, due to increasing market prices of these securities compared to 2011.
As per 2012 year-end total assets of Štedionica amounted to HRK 330.0 million, representing an annual increase of 16.0 percent.

Development plan

Major steps in collaboration with Hrvatska pošta d.d., improvement of coordination in achieving mutual goals with the Bank, and development of IT support represent main foundations of Štedionica's business development. Štedionica continues with endeavours to positively contribute to Group's results.

Risks exposure

Risk management system in HPB Stambena štedionica is accomplished through internal risk management acts, through organizational structure with clearly defined responsibilities and authorizations for risk management process, and effective internal control system. Štedionica expresses its risk tolerance by defining targeted risk profile, while taking into account all demands for suitability (adequacy) of available regulatory capital.
Most significant types of risks which could have impact on HPB Stambena štedionica are: interest rate risk in non-trading book, liquidity risk, market risks, credit risk and operational risk.

HPB Stambena štedionica evaluates interest rate risk in non-trading book from the perspective of economic value, e.g. possible decrease in value of the non-trading book due to interest rate changes. A simplified calculation of changes in economic value of the non-trading book is used from December 31 2012, as prescribed by CNB-s *Decision on the management of interest rate risk in the non-trading book*, that takes into account adjusted inbound data, i.e. adjusted model which can be applied by savings banks from October 20 2011.

Liquidity risk management is comprised of assessment and measuring liquidity risk exposure, setting liquidity risk limits, reporting, monitoring and controlling those limits. Liquidity risk management is realized through operative management of daily and short-term liquidity, as well as through structural liquidity management.

For assessment and measuring of exposure to market risks internal model of Hrvatska poštanska banka d.d. is used. This model is based on risk value method, which measures maximum potential loss that could be inflicted on Štedionica in a specific time period, with statistical reliability.

Credit risk management is based on evaluation of loan capacity of the debtor. Quality and value of the collateral obtained are also assessed, as well as historical regularity of debt repayment.

Quality of the loan portfolio is monitored by Risk control function, which reports quarterly to Štedionica's Management about the quality of the loan portfolio regarding risk group qualification and impairments made. Reports about the loan portfolio also comprise overview of quality by loan type, by large exposures, by loan type concentration and geographical concentration.

In order to determine and estimate operational risk exposure, Štedionica collects and analyses internal data about certain events caused by operational risk. Self-assessment of risk and related indicators are planned to be implemented.

Štedionica's exposure to risks has been within regulatory limits throughout the whole year.

HPB Nekretnine d.o.o.

HPB Nekretnine d.o.o. is a company specialized in real estate market which started its business activities in August 2005, and is fully owned by the Bank. Shareholders' capital amounts to HRK 0.5 million.

Primary business activities of HPB Nekretnine are: estimation of the real estate value, advisory services, development projects and buying and selling of real estate.

As of 31 December 2012, balance sheet of HPB Nekretnine amounted to HRK 11.9 million, while net profit for 2012 amounted to HRK 411 thousand.

Development plan

In the upcoming period focus will be on the active market promotion and further improvements in quality of services rendered. Company's business and development policy will be built on expected rise in demand for specific services which the Company offers (after stagnation on the real estate market). Company should therefore contribute to Group becoming more recognizable, and a synergy effect will be accomplished.

Risks exposure

Most significant types of risk that the Company is exposed to are: credit risk, liquidity risk, market risk and operating risk. Market risk includes changes of exchange rates, risk of interest rate gap and price risk. The Company manages its risks according to prescribed policies and procedures of Hrvatska poštanska banka, described in Note 2.

Statement on the application of the Corporate Governance Codex

Application of the Corporate Governance Codex

In accordnace with article 272 of Commercial Companies Law and Regulations of the Zagreb Stock Exchange, the Management Board and the Supervisory Board voluntarily implemented the Corporate Governance Codex which was established by Hrvatska agencija za nadzor financijskih usluga ("HANFA") and Zagreb Stock Exchange (Zagrebačka burza d.d. – „ZSE"). Also, the Bank implemented the Corporate Governance Codex for Commercial Companies in which Republic of Croatia has shares or stakes which was established by the Croatian Government („Narodne novine", number 112/2010).

During 2012 the Bank stepped down from the recommendations from stated Codes in sections which refer to calendar announcement of important occurrences on Bank's web pages because it comprised general deadlines, whereat all important occurrences were publicly announced immediately after accurate dates had been set. Also, the Bank did not publish General Assembly's agenda, relevant information and documents in English, considering that over 99 percent of shares are owned by Croatian government, as well as due to minority shareholder structure. According to the Statute, Bank sets the condition for registration to participate in the General Assembly and verifying authorization, to ensure optimal organization of the General Assembly and to determine validity of voting authorization. Furthermore, participation and voting in the General Assembly by using modern communication technology is not possible, because no such requirements were made by shareholders. Supervisory Board did not determine long term succession plan due to regulations which determine appointment of management board members in credit institutions, or jurisdiction of management bodies over appointment of officials in legal entities with special government interest. In addition, Supervisory Board members' fee is not determinated according to their contribution to the Company's performance, because it is regulated by Croatian Government's decision on fees to supervisory and management board members. During 2012, the Supervisory Board did not set up an appointment committee because of regulations which determinate authoritization for appointments in companies with majority state ownership nor a reward committee because earnings of Supervisory Board's and Management Board's members are determined by currently valid decisions made by Croatian Government. Furthermore, most of the auditing committee members are independent members who are not Supervisory Board members, and the commission's work departs from the recommendations for delivering financial statements and related documents to the auditing committee before public announcement, considering that these statements are submited to the Supervisory Board. A detailed explanation regarding implementation of stated Codes is presented in annual questionnaire which is publicly published and delivered to Zagreb Stock Exchange together with annual financial statements, and is also available on the Bank's web page.

Together with recommendations outlined in codes, and in accordance with credit institutions regulations, considerable efforts are made to improve corporate management of the Bank, by taking into account structure and organization of the Bank, strategy and business goals, distribution of authorizations and responsibility with particular emphasis on efficient procedures for determination, measurement, monitoring and reporting on risks in Bank's operations, as well as establishing corresponding internal control mechanisms.

A description of basic characteristics of internal supervision in the Company and risk management with respect to financial reporting is provided in descriptions of Bank's operations in Note 2.

Significant shareholders and limitations on share rights

Republic of Croatia is shareholder with a share equalling 51.46 percent. Together with Hrvatski zavod za mirovinsko osiguranje and Hrvatska pošta, Republic of Croatia holds over 99% of total share capital and voting rights at the General Assembly, thereby entirely controlling the Bank. Besides this, there are no shareholders in Bank's ownership structure with special controlling rights. According to Bank's Statute, voting rights are not limited in any way, nor are there any other limitations with respect to the realization of voting rights.

Rules for the appointment and removal of Management Board members, bringing amendments to the Statute and certain Management Board authorizations

In accordance with Bank's Statute, the Management Board consists of a minimum of two and maximum of five members. Decision regarding the number of members is made by the Supervisory Board. Decision of the Supervisory Board from November 3 2011 outlines that the Management Board has four members. Members and President of the Management Board are appointed by the Supervisory Board for a period of up to five years, and can be reappointed with no restrictions. Only individuals who meet the criteria prescribed in the Credit Institutions Act and who have the prior approval of Hrvatska narodna banka can be appointed as Management Board members. The Supervisory Board can bring a decision to remove the President of the Management Board and Members of the Board when there are valid grounds for such a decision. President and Members of the Management Board can also resign by submitting their resignation in written form.

Statute can only be amended by General Assembly's decision. A decision is considered brought if voted for by at least three quarters of share capital represented at the General Assembly. A proposed Decision on amendments to the Statue os presented by the Management Board to the Supervisory Board, which is authorized to accept the proposal and submit it to the General assembly for consideration.

Bank's Management Board is authorized, with prior written approval by the Supervisory Board, during the period of up to five years from December 30 2010, to bring one or more decisions to increase the Bank's share capital with a cash payment, by issuing new shares where the total amount of such share capital increase must not exceed HRK 450,000,000.00. Bank's Management Board is authorized, with the prior written approval of the Supervisory Board, with respect to shares issued based on the abovementioned authorization, to exclude priority in the subscription of new shares. Decisions regarding scope of rights from the shares issued based on the above-mentioned authorization, and of the terms and conditions for the issue of such shares, are made by the Management Board with prior written approval by the Supervisory Board. It is Supervisory Board's obligation to grant all approvals based on a majority vote of all it's members. In line with the decisions made in XXXI. General Assembly of the Bank, held on December 15 2010, Management Board is authorized to acquire Bank's treasury shares on regulated market or outside regulated market for a period of up to five years, where total amount of such capital regarding treasury shares, together with treasury shares that the Bank already owns, must not exceed one tenth of share capital.

Supervisory Board members and activities

In accordance with Commercial Companies Act and the Bank's Statute, Supervisory Board's main responsibility is to perform constant supervision of the Bank's business management, and appointment and removal of President and Members of the Management Board. Furthermore, in line with Credit Institutions Act, the Supervisory Board, among other duties, approves Management Board's decisions on the Bank's business policies, financial planning and the framework of annual internal audit programme, as well as annual risk control function programme and compliance function programme. Supervisory Board has set up an Audit Committee as a supporting body.

Members of the Supervisory Board during 2012, until the XXXV. General Assembly held on July 30 2012, were as follows:

mr.sc. Damir Kaufman	President
Dražen Kobas	Vice president
dr. Anita Pavković	Member
Krešimir Bračić	Member
Mario Mikulić	Member
Marin Palada	Member

In the XXXV. General Assembly of the Bank, held on July 30 2011, new Supervisory Board of the Bank, made of independent members, was chosen with following members:

Dražen Kobas	President
dr.sc. Nada Karaman Aksentijević	Vice president
Sanja Martinko	Member
Marin Palada	Member
mr. sc. Niko Raič	Member

The members of the Supervisory Board do not possess the Bank's shares or any other securities issued by the Bank.

Structure and operations of the Management Board

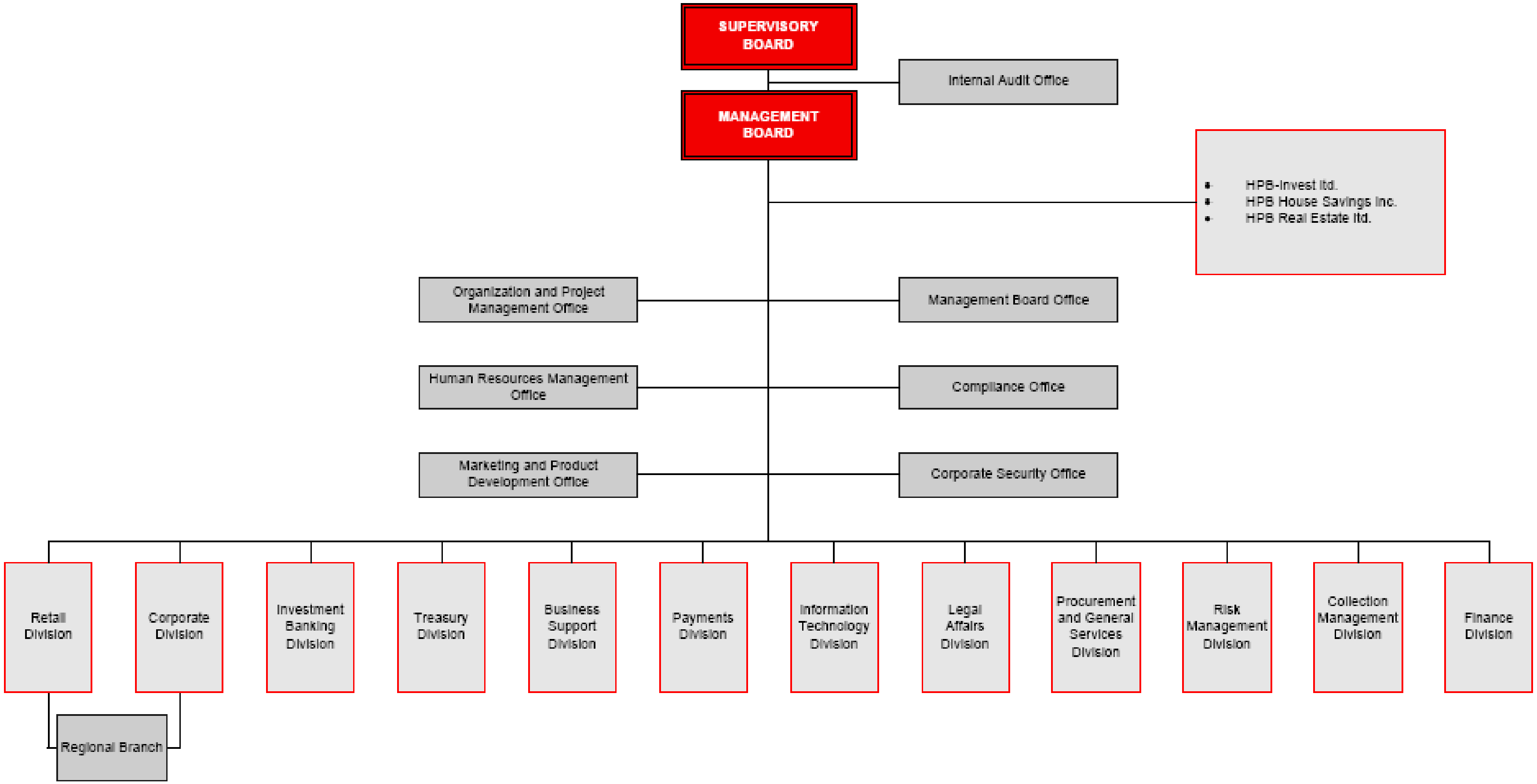
Authorizations, obligations and responsibility of the Management Board in managing Bank's operations and representation of the Bank are as prescribed by Companies Act, Credit Institutions Act, Bank's Statute and Rules of procedure of the Management Board. Main responsibility of the Management Board is managing Bank's operations and representation of the Bank towards third parties, also in accordance with Credit Institutions Act. Among other things, Management Board is obliged to ensure that the Bank operates in accordance with risk management regulations, as prescribed by Credit Institutions Act and related regulations of Hrvatska narodna banka, which represent the framework for banking operations or other financial services provided, and regulations based on Credit Institutions Act and other laws, and monitoring of risks to which Bank is exposed to in its operations and adopting adequate procedures according to which the Bank manages risks, monitoring, estimating and developing strategy of maintaining, i.e. achieving adequate level of the capital with respect to risks the Bank is exposed to in its operations, functioning of the internal control system in all of Bank's business segments and ensuring unimpeded operations of internal audit. In addition, Management Board ensuresr that the Bank maintains its business and other records and business documentation, prepares accounting documentation, realistically estimates its assets and liabilities, compiles financial and other reports in accordance with accounting rules and standards and applicable regulations, reports to the Hrvatska narodna banka in accordance with Credit Institutions Act and applicable regulations, and implements measures imposed by Hrvatska narodna banka. Management Board, with respect to requirements of business processes sets up permanent and temporary committees and delegations. Permanent committees are: Loan Approval Committee, Assets and Liability Management Committee and Operational Risk Committee.

In 2012 the Management Board consisted of the following members:

Čedo Maletić	President
Dubravka Kolarić	Member
Tanja Šimunović	Member
Boženka Mostarčić	Member

The members of the Management Board do not possess the Bank's shares or any other securities issued by the Bank.

Hrvatska poštanska banka d.d. - Organizational scheme



Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements

Management Board of the Bank is required to prepare unconsolidated and consolidated financial statements of the Bank and the Group for each financial year. These statements give a true and fair view of financial position of the Bank and the Group and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. Management Board has a general responsibility for taking available measures aiming to safeguard Bank's and Group's assets, and to prevent and detect fraud and other irregularities.

Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgments and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank and the Group, together with annual financial statements, for acceptance. If the Supervisory Board approves annual financial statements, they are deemed confirmed by the Management and Supervisory Board.

Unconsolidated and consolidated financial statements set out on pages 35 to 145 were approved by the Management Board on 29 March 2013 for their issue to the Supervisory Board, which is confirmed by the signature below:

In name of
Hrvatska poštanska banka d.d.:

HRVATSKA POŠTANSKA BANKA DIONIČKO DRUŠTVO ZAGREB B

Čedo Maletić

President of the Management Board

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To the Shareholders of Hrvatska poštanska banka d.d.:

We have audited the accompanying unconsolidated financial statements of Hrvatska poštanska banka d.d. ("the Bank") and the accompanying consolidated financial statements of Hrvatska poštanska banka Group ("the Group") set out on pages 35 to 145 which comprise the Statements of Financial Position as at 31 December 2012 and Income Statements, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated and consolidated financial statements in accordance with statutory accounting requirements for banks in Croatia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error..

Auditor's Responsibility

Our responsibility is to express an opinion on these unconsolidated and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the unconsolidated and consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated and consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated and consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Banks's and the Group's preparation and fair presentation of the unconsolidated and consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated and consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements set out on pages 35 to 145 present fairly, in all material respects financial position of the Bank and the Group as at 31 December 2012 and of its financial performance and their cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 146 to 161, which comprise the unconsolidated statement of financial position as of 31 December 2012, and the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 35 to 145, but rather a requirement specified by the Decision. The financial information provided in those forms have been derived from the financial statements of the Bank.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor and Member of the Board

Zagreb, 29 March 2013

	Notes	Group 2012 HRK 000	Group 2011 HRK 000
ASSETS			
Cash and amounts due from banks	5	1,130,569	1,090,199
Obligatory reserve with Croatian National Bank	6	1,231,884	1,246,649
Loans to and receivables from banks	7	754,612	1,307,638
Financial assets at fair value through profit or loss	8	581,219	434,138
Financial assets available for sale	9	1,371,044	1,461,485
Financial assets held to maturity	10	685,417	687,072
Loans and receivables from customers	11	10,769,490	9,708,603
Assets held for sale	12	21,551	21,551
Property and equipment	14	146,462	150,970
Investment property	15	10,194	10,450
Intangible assets	16	195,350	204,287
Deferred tax assets, net	17	21,875	37,692
Tax prepayment		127	116
Other assets	18	346,435	331,610
TOTAL ASSETS		**17,266,229**	**16,692,460**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	370	2,580
Deposits from banks	20	509,518	63,593
Customer deposits	21	13,124,858	12,924,055
Borrowings	22	1,124,110	1,240,908
Hybrid instruments	23	410,148	610,548
Provisions for liabilities and expenses	24	57,596	33,686
Other liabilities	25	628,971	573,682
TOTAL LIABILITIES		**15,855,571**	**15,449,052**
EQUITY			
Share capital	26	966,640	966,640
Capital reserve	26	228,136	228,136
Treasury shares	26	(874)	(874)
Statutory reserve	26	3,755	-
Fair value reserve	26	46,788	(18,308)
Revaluation reserve	26	1,244	1,290
Retained earnings / (Accumulated losses)	26	164,969	66,524
TOTAL EQUITY		**1,410,658**	**1,243,408**
TOTAL LIABILITIES AND EQUITY		**17,266,229**	**16,692,460**

The significant accounting policies and other notes on pages 45 to 145 form an integral part of these financial statements.

	Notes	Group 2012 HRK 000	Group 2011 HRK 000
Interest and similar income	27	895,464	877,451
Interest and similar expense	28	(415,770)	(385,122)
Net interest income		**479,694**	**492,329**
Fee and commission income	29	554,844	585,926
Fee and commission expense	30	(370,750)	(391,425)
Net fee and commission income		**184,094**	**194,501**
Gains less losses arising from securities at fair value through profit or loss	31	15,517	(21,087)
Gains less losses arising from securities available for sale	32	4,225	1,544
Gains less losses arising from dealing in foreign currencies		37,772	36,231
Other operating income	33	35,763	23,405
Trading and other (expense)/ income		**93,277**	**40,093**
Operating income		**757,065**	**726,923**
General and administrative expenses	34	(422,644)	(453,896)
Depreciation and amortisation	14.15,16	(58,956)	(62,435)
Impairment losses on loans and receivables to customers and other assets	35	(149,295)	(132,000)
Provisions for liabilities and expenses	24	(24,269)	1,796
Operating expenses		**(655,164)**	**(646,535)**
PROFIT/(LOSS) BEFORE TAX		**101,901**	**80,389**
Income tax expense	17, 36	299	5,366
PROFIT/(LOSS) FOR THE YEAR		**102,200**	**85,755**

The significant accounting policies and other notes on pages 45 to 145 form an integral part of these financial statements.

	Group 2012 HRK 000	Group 2011 HRK 000
Net profit /(loss) for the year	**102,200**	**85,755**
Gains/(losses) on available-for-sale assets	81,370	(25,626)
Revaluation reserve	(69)	(4,358)
Effect of income tax relating to other comprehensive income	(16,251)	6,005
Net other comprehensive income/(loss) for the year	**65,050**	**(23,979)**
Total comprehensive income, net of tax	**167,250**	**61,776**

The significant accounting policies and other notes on pages 45 to 145 form an integral part of these financial statements.

Bank	Share capital HRK 000	Capital reserve HRK 000	Treasury shares HRK 000	Reserves HRK 000	Fair value reserve HRK 000	Revaluation reserve HRK 000	Retained earnings HRK 000	Total HRK 000
Balance at 1 January 2011	**966,640**	**228,136**	**(874)**	**-**	**2,193**	**4,768**	**(19,231)**	**1,181,632**
Revaluation reserve	-	-	-	-	-	(169)	-	**(169)**
Change in revaluation reserve arising from disposal of tangible assets	-	-	-	-	-	(4,189)	-	**(4,189)**
Change in the fair value of financial assets available for sale	-	-	-	-	(25,626)	-	-	**(25,626)**
Deferred tax	-	-	-	-	5,125	880	-	**6,005**
Net profit /(loss) for 2011	-	-	-	-	-	-	85,755	**85,755**
Balance at 31 December 2011	**966,640**	**228,136**	**(874)**	**-**	**(18,308)**	**1,290**	**66,524**	**1,243,408**
Balance at 1 January 2012	**966,640**	**228,136**	**(874)**	**-**	**(18,308)**	**1,290**	**66,524**	**1,243,408**
Transfer to statutory reserve	-	-	-	3,755	-	-	(3,755)	**-**
Revaluation reserve	-	-	-	-	-	(69)	-	**(69)**
Change in the fair value of financial assets available for sale	-	-	-	-	81,370	-	-	**81,370**
Deferred tax	-	-	-	-	(16,274)	23	-	**(16,251)**
Net profit /(loss) for 2012	-	-	-	-	-	-	102,200	**102,200**
Balance at 31 December 2012	**966,640**	**228,136**	**(874)**	**3,755**	**46,788**	**1,244**	**164,969**	**1,410,658**

The significant accounting policies and other notes on pages 45 to 145 form an integral part of these financial statements.

	Notes	Group 2012 HRK 000	Group 2011 HRK 000
Cash flows from operating activities			
Profit before taxation		101,901	80,389
Adjusted by:			
- Depreciation and amortisation	14,15,16	58,956	62,435
- Foreign exchange (gains)/ losses	33	(3,637)	(6,054)
- Impairment losses on loans and receivables from customers and other assets	35	149,295	132,000
- Impairment losses on provisions for liabilities and expenses	24	24,269	(1,796)
- Net unrealised losses / (gains) on financial assets at fair value through profit or loss	31	(3,038)	26,192
Changes in operating assets and liabilities			
Net decrease/(increase) in loans to and receivables from banks		(138,732)	4,281
Net (increase)/decrease in financial assets at fair value through profit or loss		(144,043)	227,592
Net increase in loans to and receivables from customers		(1,199,912)	(894,472)
Net increase in other assets		(90,677)	(29,960)
Net decrease in deposits from banks		445,925	(122,747)
Net increase in customer deposits		200,803	1,729,718
Net (decrease)/increase in other liabilities		52,720	101,043
Net cash (outflow)/inflow from operating activities before tax		**(546,170)**	**1,308,621**
Income tax received/(paid)		(135)	139
Net cash (outflow)/inflow from operating activities		**(546,305)**	**1,308,760**
Cash flows from investing activities			
Purchases of property, equipment and intangible assets		(42,981)	(43,110)
Disposal of financial assets available for sale		554,779	160,128
Acquisition of financial assets available for sale		(393,334)	(756,105)
Maturity/(acquisition) of financial assets held to maturity		784	(93,461)
Dividends received		3,067	4,333
Net cash outflow from investing activities		**122,315**	**(728,215)**
Cash flows from financing activities			
Increase in hybrid instruments		(200,400)	-
Increase in borrowings		1,034,798	678,740
Repayments of borrowings		(1,151,596)	(728,398)
Net cash (outflow)/inflow from financing activities		**(317,198)**	**(49,658)**
Effect of foreign exchange differences on cash and cash equivalents		1,342	1,819
Net (decrease) / increase in cash and cash equivalents		**(739,846)**	**532,706**
Cash and cash equivalents at the beginning of the year	39	**3,519,280**	**2,986,574**
Cash and cash equivalents at the end of the year	39	**2,779,434**	**3,519,281**

The significant accounting policies and other notes on pages 45 to 145 form an integral part of these financial statements.

Unconsolidated Statement of Financial Position
At 31 December 2012

	Notes	Bank 2012 HRK 000	Bank 2011 HRK 000
ASSETS			
Cash and amounts due from banks	5	1,129,940	1,090,184
Obligatory reserve with Croatian National Bank	6	1,231,884	1,246,649
Loans to and receivables from banks	7	749,811	1,294,448
Financial assets at fair value through profit or loss	8	513,224	363,577
Financial assets available for sale	9	1,296,101	1,371,174
Financial assets held to maturity	10	685,417	687,072
Loans and receivables from customers	11	10,678,855	9,622,149
Assets held for sale	12	21,551	21,551
Investments in subsidiaries	13	53,990	53,990
Property and equipment	14	146,299	150,849
Intangible assets	16	194,967	203,764
Deferred tax assets, net	17	21,241	36,308
Other assets	18	322,173	310,111
TOTAL ASSETS		**17,045,453**	**16,451,826**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	370	2,580
Deposits from banks	20	509,518	63,593
Customer deposits	21	12,939,403	12,702,164
Borrowings	22	1,124,110	1,240,908
Hybrid instruments	23	410,148	610,548
Provisions for liabilities and expenses	24	56,522	33,664
Other liabilities	25	594,397	542,965
TOTAL LIABILITIES		**15,634,468**	**15,196,422**
EQUITY			
Share capital	26	966,640	966,640
Capital reserve	26	228,136	228,136
Treasury shares	26	(874)	(874)
Statutory reserve	26	3,755	-
Fair value reserve	26	45,799	(15,765)
Revaluation reserve	26	1,244	1,290
Retained earnings	26	166,285	75,977
TOTAL EQUITY		**1,410,985**	**1,255,404**
TOTAL LIABILITIES AND EQUITY		**17,045,453**	**16,451,826**

The significant accounting policies and other notes on pages 45 to 145 form an integral part of these financial statements.

Unconsolidated Income Statement
For the year 2012

	Notes	Bank 2012 HRK 000	Bank 2011 HRK 000
Interest and similar income	27	883,236	865,107
Interest and similar expense	28	(409,970)	(379,116)
Net interest income		**473,266**	**485,991**
Fee and commission income	29	539,207	570,597
Fee and commission expense	30	(369,004)	(390,048)
Net fee and commission income		**170,203**	**180,549**
Gains less losses arising from securities at fair value through profit or loss	31	6,961	(16,747)
Gains less losses arising from securities available for sale	32	4,224	862
Gains less losses arising from dealing in foreign currencies		37,772	36,231
Other operating income	33	38,277	24,747
Trading and other (expense)/income		**87,234**	**45,093**
Operating income		**730,703**	**711,633**
General and administrative expenses	34	(406,516)	(436,787)
Depreciation and amortisation	14, 16	(58,453)	(61,922)
Impairment losses on loans and receivables to customers and other assets	35	(148,755)	(132,329)
Provisions for liabilities and expenses	24	(23,217)	(1,215)
Operating expenses		**(636,941)**	**(629,237)**
PROFIT/(LOSS) BEFORE TAXATION		**93,762**	**82,396**
Income tax expense	17, 36	301	5,528
PROFIT/(LOSS) FOR THE YEAR		**94,063**	**87,924**
		HRK	**HRK**
Earnings/(loss) per share	37	**107,14**	**100,15**

The significant accounting policies and other notes on pages 45 to 145 form an integral part of these financial statements.

		Bank
	2012	2011
	HRK 000	HRK 000
Net profit /(loss) for the year	**94,063**	**87,924**
Gains/(losses) on available-for-sale assets	76,955	(23,851)
Revaluation reserve	(69)	(4,358)
Effect of income tax relating to other comprehensive income	(15,368)	5,650
Net other comprehensive income/(loss) for the year	**61,518**	**(22,559)**
Total comprehensive income, net of tax	**155,581**	**65,365**

The significant accounting policies and other notes on pages 45 to 145 form an integral part of these financial statements.

Unconsolidated Statement of Changes in Equity
For the year 2012

Bank	Share capital HRK 000	Capital reserve HRK 000	Treasury shares HRK 000	Reserves HRK 000	Fair value reserve HRK 000	Revaluation reserve HRK 000	Retained earnings HRK 000	Total HRK 000
Balance at 1 January 2011	**966,640**	**228,136**	**(874)**	**-**	**3,316**	**4,768**	**(11,948)**	**1,190,038**
Revaluation reserve	-	-	-	-	-	(169)	-	**(169)**
Change in revaluation reserve arising from disposal of tangible assets	-	-	-	-	-	(4,189)	-	**(4,189)**
Change in the fair value of financial assets available for sale	-	-	-	-	(23,851)	-	-	**(23,851)**
Deferred tax	-	-	-	-	4,770	880	-	**5,650**
Net profit /(loss) for 2011	-	-	-	-	-	-	87,925	**87,925**
Balance at 31 December 2011	**966,640**	**228,136**	**(874)**	**-**	**(15,765)**	**1,290**	**75,977**	**1,255,404**
Balance at 1 January 2012	**966,640**	**228,136**	**(874)**	**-**	**(15,765)**	**1,290**	**75,977**	**1,255,404**
Transfer to statutory reserve	-	-	-	3,755	-	-	(3,755)	**-**
Revaluation reserve	-	-	-	-	-	(69)	-	**(69)**
Change in the fair value of financial assets available for sale	-	-	-	-	76,955	-	-	**76,955**
Deferred tax	-	-	-	-	(15,391)	23	-	**(15,368)**
Net profit /(loss) for 2012	-	-	-	-	-	-	94,063	**94,063**
Balance at 31 December 2012	**966,640**	**228,136**	**(874)**	**3,755**	**45,799**	**1,244**	**166,285**	**1,410,985**

The significant accounting policies and other notes on pages 45 to 145 form an integral part of these financial statements.

Unconsolidated Statement of Cash Flows
For the year 2012

	Notes	Bank 2012 HRK 000	Bank 2011 HRK 000
Cash flows from operating activities			
Profit before taxation		93,762	82,396
Adjusted by:			
- Depreciation and amortisation	14, 16	58,453	61,922
- Foreign exchange (gains)/ losses	33	(3,639)	(6,216)
- Impairment losses on loans and other assets	35	148,755	132,329
- Provisions for liabilities and expenses	24	23,217	(1,801)
- Net unrealised gains on financial assets at FVPL	31	5,063	21,908
Changes in operating assets and liabilities			
Net decrease/(increase) in loans to and receivables from banks		(138,685)	4,281
Net (increase)/decrease in financial assets at FVPL		(154,710)	296,650
Net increase in loans to customers		(1,195,108)	(881,102)
Net increase in other assets		(87,750)	(26,132)
Net decrease in deposits from banks		445,925	(122,747)
Net increase in customer deposits		237,239	1,680,504
Net (decrease)/increase in other liabilities		48,863	96,364
Net cash (outflow)/inflow from operating activities before tax		**(518,615)**	**1,338,356**
Income tax received/(paid)			
Net cash (outflow)/inflow from operating activities		**(518,615)**	**1,338,356**
Cash flows from investing activities			
Investments in subsidiaries		-	20,000
Purchases of property, equipment and intangible assets		(42,884)	(42,562)
Disposal of financial assets available for sale		534,996	134,265
Acquisition of financial assets available for sale		(393,334)	(732,230)
Maturity/(acquisition) of financial assets held to maturity		783	(148,816)
Dividends received		3,067	4,333
Net cash outflow from investing activities		**102,628**	**(765,010)**
Cash flows from financing activities			
Increase in hybrid instruments		(200,400)	-
Increase in borrowings		1,034,798	678,740
Repayments of borrowings		(1,151,596)	(728,398)
Net cash (outflow)/inflow from financing activities		**(317,198)**	**(49,658)**
Effect of FX differences on cash and cash equivalents		1,161	1,818
Net (decrease) / increase in cash and cash equivalents		**(732,024)**	**525,506**
Cash and cash equivalents at the beginning of the year	39	**3,506,075**	**2,980,568**
Cash and cash equivalents at the end of the year	39	**2,774,051**	**3,506,075**

The significant accounting policies and other notes on pages 45 to 145 form an integral part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Hrvatska poštanska banka d.d. Zagreb ("the Bank") is a joint stock company incorporated and domiciled in the Republic of Croatia. The Bank is the parent of the Hrvatska poštanska banka Group ("the Group"). These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Accounting Standard 27 "Consolidated and Separate Financial Statements".

The Management Board authorised the issue of these financial statements for approval by the Supervisory Board on xxMarch 2013.

The principal accounting policies applied in the preparation of these financial statements are summarized below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards, reference may be made to certain Standards in describing the accounting policies of the Group; unless otherwise stated, Standards applicable at 31 December 2012 are referred to.

a) Statement of compliance

These financial statements are prepared in accordance with the legal requirements applicable to accounting for banks in the Republic of Croatia.The Group's financial reporting is regulated by Croatian National Bank ("the CNB") which is the central supervisory institution of the banking system in Croatia. These financial statements have been prepared in accordance with the above-mentioned banking regulations.

The accounting regulations of the CNB rely on International Financial Reporting Standards ("IFRSs"). The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- The CNB requires banks to recognize portfolio based impairment losses in the income statement, on balance and off-balance sheet exposures at prescribed rates (excluding assets carried at fair value through profit or loss and financial assets available for sale, but including sovereign risk assets). The Group's and the Bank's portfolio-based provisions made in accordance with those regulations amounted to HRK 145,914 thousand and HRK 144,446 thousand respectively (2011: HRK 142,147 thousand and HRK 141,166thousand respectively). Group'sand Bank's losses recognized in respect of such provisions amounted to HRK 5,824 thousand and HRK 5,339 thousand respectively, which were recognised within impairment losses on loans and receivables to customers and other assets for the year 2012 (2011: HRK 8,467 thousand for the Group and HRK 8,811 thousand for the Bank).Additionally, Group and Bank have recognized income from reversal of portfolio based provisions for off-balance-sheet exposures in amount of HRK 2,060 thousand, and HRK 2,059 thousand, respectively, within provisions for liabilities and expenses (2011**:**expense ofHRK 2,753 thousand for the Group and expense of HRK 2,747 thousand for the Bank). The Group and the Bank recognize such provisions in the income statement, in accordance with the requirements of International Financial Reporting Standards.

- Although the Group calculates impairment losses on corporate lending as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate, in accordance with International Financial Reporting Standards, the CNB requires the amortisation of the discount calculated to be presented in the income statement within the movement on impairment losses on loans and receivables to customers and other assets, rather than as interest income, as required by International Financial Reporting Standards.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

a) Statement of compliance (continued)

- Additionally, the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRSs.

b) Basis of preparation

The financial statements are prepared on the fair value basis for derivative financial instruments, financial assets and liabilities at fair value through profit or loss, and assets available for sale, except those for which a reliable fair value measurement is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

The financial statements have been prepared in a format generally adopted and internationally recognized by banks.

In preparing the financial statements, management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of applicable standards that have significant effects on financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

Accounting standards, interpretations and changes to the standards

In 2012 Croatian Financial Reporting Standards Boardissued:

1. Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Narodne novine, No. 15 of 2 February 2012), resulting in amendments to the following standards:
   - International Financial Reporting Standard 1 - First-time Adoption of International Financial Reporting Standards;
   - International Financial Reporting Standard 7 - Financial Instruments: Disclosures;

1. SIGNIFICANT ACOUNTING POLICIES (continued)

2. Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Narodne novine No. 118 of 26October 2012), resulting in amendments to the following standards:

   - International Financial Reporting Standard 1 - First-time Adoption of International Financial Reporting Standards;
   - International Financial Reporting Standard 5 - Non-current Assets Held for Sale and Discontinued Operations
   - International Financial Reporting Standard 7 - Financial Instruments: Disclosures;
   - International Financial Reporting Standard 8 – Operating Segments
   - International Financial Reporting Standard 13 – Fair Value Measurement
   - International Accounting Standard 1 - Presentation of Financial Statements;
   - International Accounting Standard 12 - Income Taxes
   - International Accounting Standard 20 - Accounting for Government Grants and Disclosure of Government Assistance
   - International Accounting Standard 21 - The Effects of Changes in Foreign Exchange Rates;
   - International Accounting Standard 24 - Related Party Disclosures
   - International Accounting Standard 32 - Financial Instruments: Presentation;
   - International Accounting Standard 33 - Earnings Per Share
   - International Accounting Standard 34 - Interim Financial Reporting;
   - International Accounting Standard 19 - Employee Benefits.

Adoption of the abovementioned Decision has lead to a change inIFRIC Interpretation 14 - IAS19.

Proclaimed decisions specified under items 1 and 2have been applied during preparation of 2012 financial reports of the Group and the Bank, with the exception of IAS 19 – Employee Benefits, which is to be applied from January 01 2013. Implementation of abovementioned proclaimed decisions has not had significant effects on Group's income statement.

c) Functional and presentation currency

The Group's and the Bank's financial statements are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

d) Changes in presentation or classification of the items in the financial statements

Where necessary, comparative information has been reclassified to achieve consistency with current financial year amounts and other disclosures.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

e) Basis of consolidation

Financial statements are presented for the Group and the Bank. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiaries: HPB Nekretnine d.o.o., a real estate agency; HPB Invest d.o.o., an investment fund management company; and HPB Stambena štedionica d.d., a specialized financial institution involved in collecting deposits from retail customers and granting subsided housing loans to Croatian citizens in the Republic of Croatia.All subsidiaries are 100% owned by the Bank and are incorporated and domiciled in Croatia.

Investment in subsidiaries are disclosed at purchase cost, minus possible impairments in non-consolidated financial statements of the Bank. Investments in subsidiaries are consolidated by full-consolidation method in consolidated financial statements of the Group.

Subsidiaries

Subsidiaries are all enterprises controlled by the Bank. Control is achieved where the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements using the full consolidation method from the date of acquiring control and excluded from the consolidated financial statements from the date the control ceases.

The purchase cost method of accounting is used to account for the acquisition of subsidiaries at the Group. The cost of acquiring a subsidiary is measured at fair value of assets given, equity instruments issued and of liabilities incurred or assumed as of the date of exchange, increased by all costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired including intangible assets is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

f) Interest income and expense

Interest income and expense are recognized in the income statement as they accrue for all interest bearing financial instruments, including those measured at amortized cost, at fair value through profit or loss and available for sale, using the effective interest rate method. Such income and expense is presented as interest and similar income or interest expense and similar charges in the income statement.Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortization, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognized on a basis of effective interest rate. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

g) Fee and commission income and expense

Fee and commission income and expense arise on financial services provided by the Group and received by the Group, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Group. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants.Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

h) Dividend income

Dividend income on equity investments is recognised in the income statement when the right to receive dividends is established.

i) Gains less losses from financial instruments at fair value through profit or loss and financial instruments available for sale

Gains less losses from financial instruments at fair value through profit or loss include unrealised and realised gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses arising from financial instruments available for sale comprise realised gains from financial instruments available for sale.

j) Gains less losses arising from dealing in foreign currencies

Gains less losses from dealing in foreign currencies include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

k) Foreign currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate applicable at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates applicable at the dates when the fair values were determined.Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated.

Changes in the fair value of monetary securities denominated in foreign currencies and classified as available for sale are analysed as the difference between the exchange differences arisen from changes in the security's amortised cost and other changes in the net carrying amount of the security.Exchange differences on monetary securities denominated in foreign currency classified as available for sale are recognised in the income statement, whereas other changes in their carrying amounts are recognised in equity. Translation differences on non-monetary financial assets, such as equity instruments classified as available for sale, are included in equity.

l) Financial instruments

i) Classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, available for sale, held to maturity or financial liabilities.The classification depends on the purpose for which the financial instruments were acquired.The management determines the classification of financial instruments upon initial recognition.

Financial assets and liabilities at fair value through profit or loss

This category comprises two subcategories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception.The Group designates financial assets and liabilities at fair value through profit or loss when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets at fair value through profit or loss include equity and debt securities, units/shares in investment funds and derivative financial instruments.

Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading with the receivable and include loans to and receivables from banks, loans to and receivables from customers, and the obligatory reserve with the CNB.

1. **SIGNIFICANT ACOUNTING POLICIES (continued)**

I) Financial instruments (continued)

Financial instruments held to maturity

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. This category includes debt securities.

Financial assets available for sale

This category comprises non-derivative financial assets which are defined as available for sale or are not included in loans and receivables or held-to-maturity investments, or classified as financial assets at fair value through profit or loss. Financial assets available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities.

Other financial liabilities

Other financial liabilities include all financial liabilities not designated as at fair value through profit or loss.

ii) Recognition and derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognised on the settlement date. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders.

The Group derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial instrument. This occurs when the Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Group derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

l) Financial instruments (continued)

iii) Initial and subsequent measurement

Financial assets and liabilities are recognised initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Group measures financial instruments at fair value through profit or loss and financial assets available for sale at their fair value, without any deduction for costs of sale. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at acquirement cost, and afterwards measured applying internal models of fair value estimation.

Loans and receivables and held-to-maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortised cost.

iv) Gains and losses

Gains and losses on changes in the fair value of financial assets at fair value through profit or loss are recognised in the income statement.

Gains or losses arising from a change in the fair value of available-for-sale monetary assets are recognised directly within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange differences, interest income and amortisation of premium or discount on available-for-sale monetary assets are recognised in the income statement.Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in equity.

Dividend income is recognised in the income statement.Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the income statement.

Gains or losses arising from financial instruments carried at amortised cost may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired.

v) Determination of fair value of financial instruments

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Group uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

The fair value of non-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and the current creditworthiness of the counterparties.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

l) Financial instruments (continued)

vi) Impairment of financial assets

Impairment of assets identified as impaired

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of an item is estimated.

The Group estimates and performs impairment of all financial assets, except financial assets at fair value through profit or loss.

If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement.Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

The recoverable amount of financial instruments measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original interest rate. Short-term balances are not discounted. Allowances for uncollectibility are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts (or lower amount if required by applicable CNB regulations). The expected cash flows for portfolio of similar assets are estimated based on previous experience. Also taken into considering are: credit rating of the underlying customers, and delays in payments of interest or penalties. Increases of impairment allowances are recognised in the income statement. When a loan is identified as uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the income statement.

Impairment of assets not individually identified as impaired

In addition to the above described impairment losses on assets identified as impaired, the Group recognises in the income statement portfolio-based impairment losses on balance and off-balance-sheet credit risk exposures, not recognized as impaired, at rates from 0.85 - 1.20%, in accordance with internal acts based on the regulations prescribed by the CNB.

Debt securities carried at fair value at the reporting date, initially recognized as financial assets at fair value through profit or loss, as well as financial assets available for sale, are excluded from the calculation basis of these impairments.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

l) Financial instruments (continued)

vii) Reclassifications

According to IFRSs, the Group has the possibility to reclassify certain financial instruments out of the category at fair value through profit or loss into available for sale or held to maturity instruments.

m) Specific financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks, placements with other banks with original maturities of three months or less, and items in course of collection.

Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Group does not hold or issue derivative financial instruments for the purpose of speculative trading.Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognised at fair value which is the value of consideration paid to acquire the instrument less transaction costs.Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealised gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Changes in the fair value of derivatives are included in gains less losses arising from dealing securities.

Treasury bills and debt securities

Treasury bills and debt securities that the Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as available-for-sale assets, and are carried at fair value.Treasury bills and debt securities that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

m) Specific financial instruments (continued)

Equity securities and investments in open-ended investment funds

Equity securities and investments in open-ended investment funds are classified as at fair value through profit or loss or as available-for-sale assets.

Placements with banks

Placements with banks are classified as loans and receivables and measured at amortised cost less impairment losses.

Loans and advances to customers

Loans and advances to customers are presented net of impairment losses. Purchased loans that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

Investments in subsidiaries

In the Bank's separate financial statements investments in subsidiaries are accounted for at cost less impairment losses.

Other equity securities are classified as at fair value through profit or loss or available-for-sale financial assets, and are measured at fair value.

Borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings as interest.

Repurchase agreements and linked transactions

The Group enters into purchases / (sales) of investments under agreements to resell (repurchase) essentially identical investments, or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognised in loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value, as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase amount is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

n) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognised in the income statement, except where it relates to items recognised directly in equity, in which case it is also recognised in equity. Current tax represents tax expected to be paid on the basis of taxable profit for the year, using the tax rate enacted at the reporting date, adjusted by appropriate prior-period items.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply in the period in which the liability is settled or the asset realised, based on tax rates in effect at the reporting date.

The measurement of deferred tax liabilities and assets reflects the amount that the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred taxes are not discounted and are classified in the balance sheet as non-current assets and/or non-current liabilities. Deferred tax assets are recognised only to the extent that it is probable that the related tax benefit will be realised.At each reporting date, the Group reviews the unrecognised potential tax assets and the carrying amount of the recognised tax assets.

o) Property and equipment

Property and equipment are tangible assets that are held for use in the supply of services or other administrative purposes.

Recognition and measurement

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional surveyor.

Any surplus arising on revaluation is recognised directly in a revaluation reserve within equity except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in profit or loss, in which case the credit, to that extent, is recognised in profit or loss. Any deficit on revaluation is recognised in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case it is taken directly to the revaluation reserve.

Depreciation is recognized in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

o) Property and equipment (continued)

Equipment is measured at cost, less accumulated depreciation and accumulated impairment losses.

The estimated useful lives are as follows:

	2012	2011
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and equipment	3-4 years	3-4 years
Motor vehicles	5 years	5 years
Other assets	10 years	10 years

Depreciation methods and useful lives are reassessed at each reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in the income statement.

p) Investment property

Investment properties are properties which are held by the Group either to earn rentals or for capital appreciation, or both. Investment property is carried at cost less accumulated depreciation and any impairment losses. The Group's investment property is disclosed in Note 15.

Depreciation is provided on all investment property, except for investment property not yet brought into use, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset as follows:

	2012	2011
Investment property	40 years	40 years

q) Intangible assets

Intangible assets are carried at cost less accumulated amortisation and impairment. Development costs are capitalized if all the requirements specified in IAS 38 "Intangible Assets" are met. Amortisation is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognised as an expense when they are incurred.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

q) Intangible assets (continued)

Amortisation is provided on a straight-line basis over the estimated useful life of an asset as follows:

	2012	2011
Leasehold improvements	4 years	4 years
Software	3-10 years	3-10 years
Licences	3-10 years	3-10 years

r) Impairment of non-financial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

s) Provisions for liabilities and expenses

The Group recognises a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis.

Provision for liabilities and expenses are maintained at a level which management believes is adequate to absorb the liabilities and losses in the future. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

t) Operating lease

Leases where the Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation.Rental income under operating leases is recognised in the income statement on a straight-line basis over the term of the lease.

The Group leases office space under operating leases. Payments under operating leases are recognised in the income statement over the term of the underlying lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

u) Employee benefits

Defined pension contributions

The Group pays contributions to pension-insurance funds on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Provisions for severance payments and jubilee awards

In calculating provisions for severance payments and jubilee awards, the Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Group's management, best represent the time value of money.

v) Share capital and reserves

Share capital and reserves

Share capital isdenominated in the Croatian kuna and stated at nominal value. The amount of fees paid on repurchase of share capital, including directly attributable costs, is recognised as a deduction from equity and classified as treasury shares.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Retained earnings

Any profit for the year after appropriations is transferred to reserves, in accordance with General Assembly decisions.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

v) Share capital and reserves (continued)

Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. EPS is not presented for the Group.

w) Contingencies and commitments

In the ordinary course of business, the Group enters into credit related commitments which are recorded in off-balance-sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments.Such financial commitments are recorded in the Group's balance sheet if and when they become payable.

x) Funds managed for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Group's assets and are excluded from the balance sheet.For services rendered, the Group charges a fee which is recognised in the income statement on an accruals basis. The Group also manages seven open-end funds with a public offering: HPB Dionički fund, HPB Global fund, HPB Novčani fund, HPB Obveznički fund, HPB Titan fund and HPB World Absolute Value, and HPB Euronovčani fund. The Group also manages HPB Umirovljenički fund, a special-purpose fund, established by the Croatian Government for the payment of debt to retired persons.

y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group has identified four primary segments: corporate banking; retail banking; treasury; and investment banking with custody (business segments). Groups operations, total assets and the majority of its clients are located in Croatia (geographical segment).

1. SIGNIFICANT ACOUNTING POLICIES (continued)

2. RISK MANAGEMENT

This note details the Group's risk exposures as well as the methods applied by the management to identify, measure and manage those risks for the purpose of preserving capital. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, interest rate risk in the Bank's non-trading book, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

An integrated system of risk management is established at the Group level by introducing a set of policies, procedures and manuals, determining the limits of risk levels acceptable to the Group and monitoring their implementation. The limits are set with respect to the amount of regulatory capital and are applied to all types of risk. Additionally, the Bank sets limits for annual potential losses measured by Value-at-Risk techniques for its market risk exposure. Internal methodologies and models for managing other types of risks are also being developed.

The responsibility for determining the framework of the Group's risk management lies with the Bank's Management Board which has delegated the risk management tasks to the Asset and Liability Committee, Credit Committee and Operational Risk Management Committee.

2.1 Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank evaluates debtors' creditworthiness, and in order to minimize credit risk, obtains appropriate collateral.

As perreporting date, the Group's credit risk exposure to financial instruments classified as at fair value through profit or loss is presented by the positive fair value of these instruments, as recorded in the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties in derivative transactions and do not measure the Group's exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Group is exposed to credit risk primarily through loans and receivables from customers. The amount of credit exposure in this regard, as well as held-to-maturity debt securities recognised at amortised cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance-sheet items, i.e. through commitments arising from unused facilities and guarantees issued, as disclosed in Note 40.

Credit risk management comprises assessment of placements' credit risk, subsequent monitoring, supervision, and evaluation of recoverability of placements and off-balance sheet commitments, as well as formation of required impairments and provisions for identified losses on placements and off-balance sheet commitments, and reporting to the Management Board of the Bank.

2. RISK MANAGEMENT (continued)

2.1.1 Credit risk assessment

Assessment of the individual credit risk exposure comprises the following:

- debtors' creditworthiness;
- debtors' timeliness in meeting their obligations; and
- collateral quality.

Monitoring of credit risk includes continuous assessment whether elements exist which would indicate a deterioration of the client's financial position, the client's exposure to currency risk or an increase in risk due to the decrease of collateral value.

2.1.2. Classification of placements into risk categories

The Bank classifies placements into risk categories depending on the estimated recovery rate of placements, and in accordance with the CNB's Decision on Classification of Placements and Off-balance Sheet Liabilities of Credit Institutions. All placements that the Bank estimates are fully recoverable are classified in risk category A. Upon initial approval, the Bank classifies all placements into risk category A. Placements that the Bank estimates are partly recoverable are classified into risk category B, depending on the loss percentage: in subcategory B1 (loss is estimated at below 30% of nominal carrying value of the placement), in subcategory B2 (loss is estimated at between 30% and 70% of nominal carrying value of the placement), and in subcategory B3 (loss is estimated at above 70%, but below 100% of nominal carrying value of the placement). Placements estimated to be fully irrecoverable are classified into risk category C.

2.1.3. Placements impairment policy

When estimating the recoverable amount of placements, the Bank separates placements between small and large portfolios.

Small portfolio represents placements and off-balance sheet commitments whose gross value (before any impairment loss) does not exceed HRK 700 thousand towards a single debtor or a single group of related parties at the date of estimation.

Generally, the Bank estimates the recoverability of placements to retail customers according to criteria established for the small portfolio, whereas the recoverability of placements to corporate clients is estimated according to criteria which do not apply to the small portfolio.

2. RISK MANAGEMENT (continued)

2.1.3. Impairment policy on placements (continued)

Individual assessment

The recoverable amount of placements that are not classified within the small loan portfolio of the Bank is estimated on an individual basis according to the following criteria:

- debtors' creditworthiness;
- debtors' timeliness in meeting their obligations; and
- collateral quality.

Portfolio-based assessment

The estimate of the recoverable amount of exposures that are classified within the small loan portfolio is, in general, performed on a portfolio basis by having regard principally to the debtors' timeliness in meeting their obligations.

The following tables present the classification of exposures into risk categories for the Group and the Bank and the allocation of the corresponding impairment losses as a percentage of gross principal.

2. RISK MANAGEMENT (continued)

2.1.3 Impairment policy on placements (continued)

Group

%	**Loans and receivables from customers**	Impairment allowance	**Loans to and receivables from banks**	Impairment allowance	**Financial assets held to maturity**	Impairment allowance	**Balances with the CNB**	Impairment allowance	**Fees receivable**	Impairment allowance
2012										
A	73.64	1.31	99.93	-	96.17	0.95	100.00	-	86.20	-
A (< 90 days)	2.77	1.31	-	-	-	-	-	-	0.30	-
B and C	23.59	35.26	0.07	100.00	3.83	95.26	-	-	13.50	100.00
2011										
A	73.11	1.39	99.96	-	96.18	0.99	100.00	-	82.43	-
A (< 90 days)	2.99	1.39	-	-	-	-	-	-	0.09	-
B and C	23.89	33.51	0.04	100.00	3.82	91.24	-	-	17.48	100.00

Bank

%	**Loans and receivables from customers**	Impairment allowance	**Loans to and receivables from banks**	Impairment allowance	**Financial assets held to maturity**	Impairment allowance	**Balances with the CNB**	Impairment allowance	**Fees receivable**	Impairment allowance
2012										
A	73.44	1.31	99.93	-	96.17	0.95	100.00	-	86.07	-
A (< 90 days)	2.79	1.31	-	-	-	-	-	-	0.30	-
B and C	23.76	35.26	0.07	100.00	3.83	95.26	-	-	13.63	100.00
2011										
A	72.90	1.39	99.96	-	96.18	0.99	100.00	-	82.21	-
A (< 90 days)	3.01	1.39	-	-	-	-	-	-	0.09	-
B and C	24.09	33.51	0.04	100.00	3.82	91.24	-	-	17.70	100.00

2. RISK MANAGEMENT (continued)

Maximum exposure to credit risk before consideration of collateral

The table below shows the maximum exposure to credit risk as at 31 December 2012, not considering the collateral, if any. The exposures presented below are net of impairment losses and provisions.

Maximum exposure		**Group**		**Bank**	
		2012	**2011**	**2011**	**2010**
	Notes	**HRK 000**	**HRK 000**	**HRK 000**	**HRK 000**
Giro account with the CNB and other banks	5	689,382	546,179	689,382	546,179
Obligatory reserve with Croatian National Bank	6	1,231,884	1,246,649	1,231,884	1,246,649
Loans to and receivables from banks	7	754,612	1,307,638	749,811	1,294,448
Held-to-maturity investments	10	685,417	687,072	685,417	687,072
Loans and receivables from customers	11	10,769,490	9,708,603	10,678,855	9,622,149
Fees receivable	19	55,851	34,418	55,245	33,894
Off-balance sheet exposure	40	**2,053,813**	**2,229,505**	**2,051,644**	**2,227,447**
Undisbursed lending commitments		1,600,958	1,587,027	1,598,789	1,584,969
Guarantees		358,534	556,618	358,534	556,618
Other contingent liabilities		94,321	85,860	94,321	85,860
Total credit exposure		**16,240,449**	**15,760,064**	**16,142,238**	**15,657,838**

2. RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk

Group 2012	**Loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
	HRK 000	**HRK 000**	**HRK 000**	**HRK 000**	**HRK 000**
Loans neither overdue nor impaired	8,745,967	754,612	690,672	1,761,940	55,656
Overdue loans not impaired	329,240	-	-	-	195
Impaired loans	2,801,062	500	27,497	-	8,716
Total gross	**11,876,269**	**755,112**	**718,169**	**1,761,940**	**64,567**
Individually identified losses	(987,691)	(500)	(26,194)	-	(8,716)
Portfolio-based losses	(119,088)	-	(6,558)	-	-
Total identified losses	**(1,106,779)**	**(500)**	**(32,752)**	**-**	**(8,716)**
Total	**10,769,490**	**754,612**	**685,417**	**1,761,940**	**55,851**

Group 2011	**Loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
	HRK 000	**HRK 000**	**HRK 000**	**HRK 000**	**HRK 000**
Loans neither overdue nor impaired	7,805,861	1,307,638	691,506	1,744,518	34,381
Overdue loans not impaired	319,576	-	-	-	37
Impaired loans	2,550,920	500	27,447	-	7,289
Total gross	**10,676,357**	**1,308,138**	**718,953**	**1,744,518**	**41,707**
Individually identified losses	(854,771)	(500)	(25,042)	-	(7,289)
Portfolio-based losses	(112,983)	-	(6,839)	-	-
Total identified losses	**(967,754)**	**(500)**	**(31,881)**	**-**	**(7,289)**
Total	**9,708,603**	**1,307,638**	**687,072**	**1,744,518**	**34,418**

2. RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk (continued)

Bank 2012	**Loans and receivables from customers HRK 000**	**Loans to and receivables from banks HRK 000**	**Financial assets held to maturity HRK 000**	**Balances with the CNB HRK 000**	**Fees receivable HRK 000**
Loans neither overdue nor impaired	8,654,363	749,811	690,672	1,761,940	55,050
Overdue loans not impaired	329,240	-	-	-	195
Impaired loans	2,800,444	500	27,497	-	8,716
Total gross	**11,784,047**	**750,311**	**718,169**	**1,761,940**	**63,961**
Individually identified losses	(987,549)	(500)	(26,194)	-	(8,716)
Portfolio-based losses	(117,643)	-	(6,558)	-	
Total identified losses	**(1,105,192)**	**(500)**	**(32,752)**	-	**(8,716)**
Total	**10,678,855**	**749,811**	**685,417**	**1,761,940**	**55,245**

Bank 2011	**Loans and receivables from customers HRK 000**	**Loans to and receivables from banks HRK 000**	**Financial assets held to maturity HRK 000**	**Balances with the CNB HRK 000**	**Fees receivable HRK 000**
Loans neither overdue nor impaired	7,719,095	1,294,448	691,506	1,744,518	33,857
Overdue loans not impaired	318,932	-	-	-	37
Impaired loans	2,550,911	500	27,447	-	7,289
Total gross	**10,588,938**	**1,294,948**	**718,953**	**1,744,518**	**41,183**
Individually identified losses	(854,766)	(500)	(25,042)	-	(7,289)
Portfolio-based losses	(112,023)	-	(6,839)	-	-
Total identified losses	**(966,789)**	**(500)**	**(31,881)**	-	**(7,289)**
Total	**9,622,149**	**1,294,448**	**687,072**	**1,744,518**	**33,894**

2. RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk (continued)

In accordance with applicable acts, the Bank utilizes the following common types of collateral: bank guarantees; HAMAG ("Croatian Agency for Small Entrepreneurship") and other corporate guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; assignment of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments, such as bills of exchange and promissory notes.

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice and current market trends.

The gross balance of fully recoverable amounts not identified as past due beyond 90 day and as individually impaired at the reporting date sheet day, together with the underlying collateral at its fair value, expressed as a percentage of net placements is as follows:

2. RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk (continued)

(a) Assets exposed to credit risk but not impaired (risk category A)

Group 2012 HRK 000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	2,665,373	101,113	2,703,574	750,237	3,170	150,796	2,371,704	**8,745,967**	754,612	690,672	1,761,940	55,656
Total portfolio-based losses	(34,904)	(1,324)	(35,501)	(9,973)	(42)	(1,975)	(31,058)	**(114,777)**	-	(6,558)		-
Net amount	**2,630,469**	**99,789**	**2,668,073**	**740,264**	**3,128**	**148,821**	**2,340,646**	**8,631,190**	**754,612**	**684,114**	**1,761,940**	**55,656**
Collateral value	943,203	21,260	2,804,278	1,505,376	7,958	-	564,275	**5,846,350**	-	-	-	-
Collateral coverage in %	35.86	21.30	105.10	203.36	254.41	-	24.11	**67.74**	-	-	-	-

Group 2011 HRK 000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	1,117,987	76,792	3,749,335	613,093	3,766	140,376	2,104,512	**7,805,861**	1,307,638	691,506	1,744,518	34,381
Total portfolio-based losses	(15,581)	(1,070)	(52,373)	(8,168)	(52)	(1,956)	(29,330)	**(108,531)**	-	(6,839)	-	-
Net amount	**1,102,406**	**75,722**	**3,696,962**	**604,925**	**3,714**	**138,420**	**2,075,182**	**7,697,330**	**1,307,638**	**684,667**	**1,744,518**	**34,381**
Collateral value	112,956	68,236	5,094,446	1,203,306	10,048	-	513,473	**7,002,465**	-	-		
Collateral coverage in %	10.25	90.11	137.80	198.92	270.54	-	24.74	**90.97**	-	-	-	-

2. RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk (continued)

(a) Assets exposed to credit risk but not impaired (risk category A) (continued)

Bank 2012 HRK 000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	2,665,373	101,113	2,710,978	651,229	3,170	150,796	2,371,704	**8,654,363**	749,811	690,672	1,761,940	55,050
Total portfolio-based losses	(34,904)	(1,324)	(35,501)	(8,528)	(42)	(1,975)	(31,058)	**(113,332)**	-	(6,558)		-
Net amount	**2,630,469**	**99,789**	**2,675,477**	**642,701**	**3,128**	**148,821**	**2,340,646**	**8,541,031**	**749,811**	**684,114**	**1,761,940**	**55,050**
Collateral value	943,203	21,260	2,824,516	1,120,802	7,958	-	564,275	**5,482,014**	-	-	-	-
Collateral coverage in %	35.86	21.30	105.57	174.39	254.41	-	24.11	**64.18**	-	-	-	-

Bank 2011 HRK 000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	1,117,987	76,792	3,757,965	517,697	3,766	140,376	2,104,512	**7,719,095**	1,294,448	691,506	1,744,518	33,857
Total portfolio-based losses	(15,581)	(1,070)	(52,373)	(7,215)	(52)	(1,956)	(29,330)	**(107,578)**	-	(6,839)	-	-
Net amount	**1,102,406**	**75,722**	**3,705,592**	**510,482**	**3,714**	**138,420**	**2,075,182**	**7,611,517**	**1,294,448**	**684,667**	**1,744,518**	**33,857**
Collateral value	112,956	68,236	5,094,446	869,665	10,048	-	513,473	**6,668,824**	-	-	-	-
Collateral coverage in %	10.25	90.11	137.48	170.36	270.54	-	24.74	**87.61**	-	-	-	-

2. RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk (continued)

(b) Assets exposed to credit risk in the risk category A that are past due beyond 90 days but not impaired

The gross balance and the coverage of those assets with collateral at fair value, presented as a percentage of net placements is as follows:

Group 2012 HRK 000	Loans and receivables from customers					Fees receivable
	Government units	Companies	Housing loans	Other loans	**Total**	
Gross amount	-	300,612	5,194	23,434	**329,240**	195
Total portfolio-based losses	-	(3,937)	(68)	(307)	**(4,311)**	-
Net amount	**-**	**296,675**	**5,126**	**23,127**	**324,929**	**195**
Collateral value	-	703,170	5,528	61,677	**770,375**	
Collateral coverage in %	-	237.02	107.84	266.69	237.09	-

Group 2011 HRK 000	Loans and receivables from customers					Fees receivable
	Government units	Companies	Housing loans	Other loans	**Total**	
Gross amount	25,096	291,333	643	2,504	**319,576**	37
Total portfolio-based losses	(350)	(4,060)	(6)	(35)	**(4,451)**	-
Net amount	**24,746**	**287,273**	**637**	**2,469**	**315,125**	**37**
Collateral value	-	507,931	2,120	6,871	**516,922**	
Collateral coverage in %	-	176.81	332.81	278.29	164.04	-

2. RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk (continued)

(b) Assets exposed to credit risk in the risk category A that are past due beyond 90 days but not impaired (continued)

Bank 2012 HRK 000	**Loans and receivables from customers** Government units	Companies	Housing loans	Other loans	**Total**	**Fees receivable**
Gross amount	-	300,612	5,194	23,434	**329,240**	195
Total portfolio-based losses	-	(3,937)	(68)	(307)	**(4,311)**	-
Net amount	**-**	**296,675**	**5,126**	**23,127**	**324,929**	**195**
Collateral value	-	703,170	5,528	61,677	**770,375**	
Collateral coverage in %	-	237.02	107.84	266.69	237.09	-

Bank 2011 HRK 000	**Loans and receivables from customers** Government units	Companies	Other loans	**Total**	**Fees receivable**
Gross amount	25,096	291,333	2,503	**318,932**	37
Total portfolio-based losses	(350)	(4,060)	(35)	**(4,445)**	-
Net amount	**24,746**	**287,273**	**2,468**	**314,487**	**37**
Collateral value	-	507,931	6,871	**514,802**	
Collateral coverage in %	-	176.81	278.40	163.70	-

2. RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk (continued)

(c) Credit risk on impaired assets in risk categories B and C

The table below shows the amount of loans and advances both individually impaired and impaired on a portfolio basis, and their coverage by collateral at fair value, expressed as a percentage of the net amount:

Group 2012 HRK 000	**Loans to customers**								
	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
Gross amount	2,178,357	21,873	461	6,537	593,834	**2,801,062**	500	27,497	8,716
Total identified losses	(654,106)	(4,035)	(9)	(4,519)	(325,022)	**(987,691)**	(500)	(26,194)	(8,716)
Net amount	**1,524,251**	**17,838**	**452**	**2,018**	**268,812**	**1,813,371**	**-**	**1,303**	**-**
Collateral value	3,279,822	31,540	1,336	-	426,750	**3,739,448**	-	-	-
Collateral coverage in %	215.18	176.81	295.58	-	158.75	206.22	**-**	**-**	**-**

Group 2011 HRK 000	**Loans to customers**								
	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
Gross amount	1,947,303	13,605	39	398	589,575	**2,550,920**	500	27,447	7,289
Total identified losses	(542,089)	(3,202)	(23)	(388)	(309,069)	**(854,771)**	(500)	(25,042)	(7,289)
Net amount	**1,405,214**	**10,403**	**16**	**10**	**280,505**	**1,696,149**	**-**	**2,405**	**-**
Collateral value	2,513,419	24,290	1,149	-	685,663	**3,224,521**	-	-	-
Collateral coverage in %	178.86	233.49	7,181.25	-	244.44	190.11	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk (continued)

(c) Credit risk on impaired assets in risk categories B and C (continued)

Bank 2012 HRK 000	Loans to customers								
	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
Gross amount	2,178,357	21,255	461	6,537	593,834	**2,800,444**	500	27,497	8,716
Total identified losses	(654,106)	(3,893)	(9)	(4,519)	(325,022)	**(987,549)**	(500)	(26,194)	(8,716)
Net amount	**1,524,251**	**17,362**	**452**	**2,018**	**268,812**	**1,812,895**	**-**	**1,303**	**-**
Collateral value	3,279,822	29,429	1,336	-	426,750	**3,737,337**	-	-	-
Collateral coverage in %	215.18	169.50	295.58	-	158.75	206.15	**-**	**-**	**-**

Bank 2011 HRK 000	Loans to customers								
	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
Gross amount	1,947,303	13,596	39	398	589,575	**2,550,911**	500	27,447	7,289
Total identified losses	(542,089)	(3,197)	(23)	(388)	(309,069)	**(854,766)**	(500)	(25,042)	(7,289)
Net amount	**1,405,214**	**10,399**	**16**	**10**	**280,505**	**1,696,134**	**-**	**2,405**	**-**
Collateral value	2,513,419	24,290	1,149	-	685,663	**3,224,521**	-	-	-
Collateral coverage in %	178.86	233,58	7,082.09	-	244.44	190,11	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk (continued)

(d) Prolonged and rescheduled loans to customers

Prolongation of a loan is approved to customers because of common and current financing needs of their business activities.

Loans are most often rescheduled when borrowers' business operations are disrupted, with considerable changes made to the previously agreed lending terms and conditions.

	Bank 2012 HRK 000	Bank 2011 HRK 000
Gross loans and advances to customers		
Corporate	1,750,777	2,072,799
Small and middle enterprises	305,289	350,629
Retail	89,357	73,038
Total	**2,145,423**	**2,496,466**

2.1.5. Credit risk concentration by industry:

An analysis of the concentration of credit risk by industry is presented in the table below:

	Group 2012 HRK 000	Group 2011 HRK 000
Agriculture, forestry and fisheries	212,575	209,537
Manufacturing	1,535,187	2,633,289
Construction	924,072	778,544
Transportation and storage	405,959	404,764
Wholesale and retail trade; repair of motor vehicles and motorcycles	643,698	706,347
Accommodation and food service activities	261,120	311,370
Professional, scientific and technical activities	157,049	282,267
Public administration and defense; compulsory social security	2,401,026	1,054,629
Electricity, gas, steam and air conditioning supply	283,913	150,609
Information and communication	245,862	149,657
Arts, entertainment and recreation	121,452	120,592
Administrative and support service activities	99,663	105,802
Other	655,082	283,722
Total gross loans to corporate customers	**7,946,658**	**7,191,129**
Loans to retail customers (gross)	**3,869,247**	**3,416,781**
Collateralised	10,356,173	10,743,908
Accrued interest	60,364	68,447
Provisions for impairment losses	(1,106,779)	(967,754)
Total	**10,769,490**	**9,708,603**

2. RISK MANAGEMENT (continued)

2.1.5. Credit risk concentration by industry (continued)

	Bank	Bank
	2012 **HRK 000**	**2011** **HRK 000**
Agriculture, forestry and fisheries	212,575	209,537
Manufacturing	1,535,187	2,633,289
Construction	924,072	778,544
Transportation and storage	405,959	404,764
Wholesale and retail trade; repair of motor vehicles and motorcycles	643,698	706,347
Accommodation and food service activities	261,120	311,370
Professional, scientific and technical activities	157,049	282,267
Public administration and defense; compulsory social security	2,401,026	1,054,629
Electricity, gas, steam and air conditioning supply	283,913	150,609
Information and communication	245,862	149,657
Arts, entertainment and recreation	121,452	120,592
Administrative and support service activities	99,663	105,802
Other	662,486	292,352
Total gross loans to corporate customers	**7,954,062**	**7,199,759**
Loans to retail customers (gross)	**3,769,726**	**3,320,879**
Collateralised	9,989,726	10,408,147
Accrued interest	60,259	68,300
Provisions for impairment losses	(1,105,192)	(966,789)
Total	**10,678,855**	**9,622,149**

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of its positions. The main categories of liquidity risk to which the Group is exposed are as follows:

- liquidity funding risk (structural liquidity risk); risk that the Bank will not be able to meet efficiently its expected and unexpected present and future cash and collateral requirements without impacting its day-to-day operations or its own financial result;
- market liquidity risk, risk that the Bank will not be able to offset its positions or liquidate positions at market price due to a market disturbance or the market being insufficiently deep.

The Group manages liquidity risk in accordance with the legal and regulatory requirements. In addition to those requirements, liquidity risk management is governed by the following internal regulations:

- Risk Management Policy;
- Liquidity Risk Management Manual;

The system for managing liquidity risk, in line with defined polices, includes:

- estimation and measurement of liquidity risk exposure;
- setting liquidity risk exposure limits;
- reporting and monitoring the limits used;
- control function;

Liquidity risk management is realized through:

- operational management of daily liquidity;
- operational management of short-term liquidity;
- structural liquidity management.

Operational management of daily and short-term liquidity is performed through:

- planning and projecting daily/ten-day/monthly cash flows;
- maintaining minimum weekly and monthly liquidity coefficient in HRK, total of all convertible currencies and non-convertible currencies individually, and total minimum weekly and monthly liquidity coefficient, calculated according to CNB's Decision on Liquidity Risk Management, within the prescribed limit.

Structural liquidity management is performed through:

- maintaining positions depending on gap limits between receivables and liabilities according to remaining contractual maturity;
- maintaining positions in accordance with liquidity risk exposure limits;
- diversification of sources of funding.

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk (continued)

Risk Management Division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liability Management Committee.

The Group is submitting monthly reports to the CNB in form and in deadline prescribed by Decision on Liquidity Risk Management, with end-of-the-month status. Prescribed quantitative requirements consist of following reports: about the amount of highly liquid assets (presently marketable assets), about the maturity gap of assets and liabilities (expected inflows and outflows form), about the level of minimal liquidity coefficient and funds concentration within total liabilities. Information is delivered for two periods: up to one week and up to one month, separately for HRK, convertible currencies and each non-convertible currency individually (if they represent a significant amount) and on portfolio basis for HRK and convertible currencies. The Group has maintained all limits above prescribed levels during 2012. The Bank maintains obligatory reserve and minimal foreign currency receivables within limits prescribed by Decision on Reserve Requirements and Decision on Minimum Required Amount of Foreign Currency Claims.

The Treasury Division reports monthly to Assets and Liability Management Committee about planned outflows and inflows.

Ultimate responsibility for liquidity risk management rests with the Bank's Management Board. The Bank’s Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in it’s sessions. Each division to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Group prescribes and implements stress tests of it’s liquidity. Risk division conducts tests of immunity to stress by taking into account all the factors specific to the Bank (internal factors) and market factors (external factors).

Immunity to stress tests are conducted for HRK and total convertible currencies, for periods up to one week and up to one month.

Long-term liquidity is managed by maintaining positions in accordance with the limits of exposure to liquidity risk.

2.2.1 Maturity analysis

A maturity analysis of assets and liabilities, as well as equity, of the Group and the Bank, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Group’s and the Bank’s trading intention, as at 31 December 2012 and 31 December 2011, is presented in the tables below.

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk (continued)

2.2.1. Maturity analysis (continued)

Group 2012 HRK 000	0-30 days	31-90 days	91-360 days	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	1,130,569	-	-	-	-	1,130,569
Obligatory reserve with Croatian National Bank	1,231,884	-	-	-	-	1,231,884
Loans to and receivables from banks	333,036	118,220	62,080	90,276	151,000	754,612
Financial assets at fair value through profit or loss	510,720	4,017	-	-	66,482	581,219
Financial assets available for sale	2,052	64,905	360,649	184,320	759,118	1,371,044
Financial assets held to maturity	38,722	151,976	82,623	145,211	266,885	685,417
Loans and receivables from customers	2,063,593	432,221	3,082,033	1,943,754	3,247,889	10,769,490
Assets held for sale	-	-	-	-	21,551	21,551
Property and equipment	-	-	-	29	146,433	146,462
Investment property	-	-	-	-	10,194	10,194
Intangible assets	-	-	-	242	195,108	195,350
Deferred tax assets, net	-	-	634	-	21,241	21,875
Tax prepayment	-	-	127	-	-	127
Other assets	172,839	-	23,442	367	149,787	346,435
TOTAL ASSETS	**5,483,415**	**771,339**	**3,611,588**	**2,364,199**	**5,035,688**	**17,266,229**
LIABILITIES						
Financial liabilities at fair value through profit or loss	370	-	-	-	-	370
Deposits from banks	275,819	36,913	196,786	-	-	509,518
Customer deposits	5,896,770	1,745,115	4,570,392	814,288	98,293	13,124,858
Borrowings	12,690	46,792	175,927	342,185	546,516	1,124,110
Hybrid instruments	-	8,405	-	401,743	-	410,148
Provisions for liabilities and expenses	17,360	21,283	10,883	2,822	5,248	57,596
Other liabilities	487,423	19,107	32,936	22,119	67,386	628,971
Total equity	-	-	-	-	1,410,658	1,410,658
TOTAL LIABILITIES AND EQUITY	**6,690,432**	**1,877,615**	**4,986,924**	**1,583,157**	**2,128,101**	**17,266,229**
MATURITY GAP	**(1,207,017)**	**(1,106,276)**	**(1,375,336)**	**781,042**	**2,907,587**	**-**
CUMMULATIVE MATURITY GAP	**(1,207,017)**	**(2,313,293)**	**(3,688,629)**	**(2,907,587)**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk (continued)

2.2.1. Maturity analysis (continued)

Group 2011
HRK 000

	0-30 days	31-90 days	91-360 days	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	1,090,199	-	-	-	-	1,090,199
Obligatory reserve with Croatian National Bank	1,246,649	-	-	-	-	1,246,649
Loans to and receivables from banks	845,290	254,753	40,000	125,321	42,274	1,307,638
Financial assets at fair value through profit or loss	358,072	12,908	-	-	63,158	434,138
Financial assets available for sale	99,678	216,459	263,458	109,885	772,005	1,461,485
Financial assets held to maturity	36,692	152,297	50,320	74,011	373,752	687,072
Loans and receivables from customers	1,958,822	553,776	3,142,745	1,595,004	2,458,256	9,708,603
Assets held for sale	-	-	-	-	21,551	21,551
Property and equipment	-	-	-	31	150,939	150,970
Investment property	-	-	-	-	10,450	10,450
Intangible assets	-	-	-	380	203,907	204,287
Deferred tax assets, net	-	-	-	-	37,692	37,692
Tax prepayment	-	-	116	-	-	116
Other assets	201,965	4,273	19,487	424	105,461	331,610
TOTAL ASSETS	**5,837,367**	**1,194,466**	**3,516,126**	**1,905,056**	**4,239,445**	**16,692,460**
LIABILITIES						
Financial liabilities at fair value through profit or loss	2,580	-	-	-	-	2,580
Deposits from banks	60,523	3,070	-	-	-	63,593
Customer deposits	6,134,232	1,691,980	4,158,710	841,404	97,729	12,924,055
Borrowings	19,050	114,670	183,212	319,099	604,877	1,240,908
Hybrid instruments	-	8,910	200,000	150,000	251,638	610,548
Provisions for liabilities and expenses	16,762	1,256	9,952	5,404	312	33,686
Other liabilities	441,970	12,872	37,231	15,976	65,633	573,682
Total equity	-	-	-	-	1,243,408	1,243,408
TOTAL LIABILITIES AND EQUITY	**6,675,117**	**1,832,758**	**4,589,105**	**1,331,883**	**2,263,597**	**16,692,460**
MATURITY GAP	**(837,750)**	**(638,292)**	**(1,072,979)**	**573,173**	**1,975,848**	**-**
CUMMULATIVE MATURITY GAP	**(837,750)**	**(1,476,042)**	**(2,549,021)**	**(1,975,848)**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk (continued)

2.2.1. Maturity analysis (continued)

Bank 2012
HRK 000

	0-30 days	**31-90 days**	**91-360 days**	**1 to 3 years**	**Over 3 years**	**Total**
ASSETS						
Cash and amounts due from banks	1,129,940	-	-	-	-	1,129,940
Obligatory reserve with Croatian National Bank	1,231,884	-	-	-	-	1,231,884
Loans to and receivables from banks	333,036	113,419	62,080	90,276	151,000	749,811
Financial assets at fair value through profit or loss	510,720	2,504	-	-	-	513,224
Financial assets available for sale	15	63,875	358,649	139,784	733,778	1,296,101
Financial assets held to maturity	38,722	151,976	82,623	145,211	266,885	685,417
Loans and receivables from customers	2,059,474	431,815	3,077,248	1,930,773	3,179,545	10,678,855
Assets held for sale	-	-	-	-	21,551	21,551
Investments in subsidiaries	-	-	-	-	53,990	53,990
Property and equipment	-	-	-	-	146,299	146,299
Intangible assets	-	-	-	-	194,967	194,967
Deferred tax assets, net	-	-	-	-	21,241	21,241
Other assets	162,325	-	11,936	367	147,545	322,173
TOTAL ASSETS	**5,466,116**	**763,589**	**3,592,536**	**2,306,411**	**4,916,801**	**17,045,453**
LIABILITIES						
Financial liabilities at fair value through profit or loss	370	-	-	-	-	370
Deposits from banks	275,819	36,913	196,786	-	-	509,518
Customer deposits	5,931,357	1,733,668	4,492,037	729,582	52,759	12,939,403
Borrowings	12,690	46,792	175,927	342,185	546,516	1,124,110
Hybrid instruments	-	8,405	-	401,743	-	410,148
Provisions for liabilities and expenses	17,360	21,283	9,809	2,822	5,248	56,522
Other liabilities	467,959	18,793	22,062	22,119	63,464	594,397
Total equity	-	-	-	-	1,410,985	1,410,985
TOTAL LIABILITIES AND EQUITY	**6,705,555**	**1,865,854**	**4,896,621**	**1,498,451**	**2,078,972**	**17,045,453**
MATURITY GAP	**(1,239,439)**	**(1,102,265)**	**(1,304,085)**	**807,960**	**2,837,829**	**-**
CUMMULATIVE MATURITY GAP	**(1,239,439)**	**(2,341,704)**	**(3,645,789)**	**(2,837,829)**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk (continued)

2.2.1. Maturity analysis (continued)

Bank 2011
HRK 000

	0-30 days	31-90 days	91-360 days	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	1,090,183	-	-	-	-	1,090,183
Obligatory reserve with Croatian National Bank	1,246,649	-	-	-	-	1,246,649
Loans to and receivables from banks	832,100	254,753	40,000	125,321	42,274	1,294,448
Financial assets at fair value through profit or loss	358,072	5,506	-	-	-	363,578
Financial assets available for sale	99,678	215,323	242,191	77,965	736,017	1,371,174
Financial assets held to maturity	36,692	152,297	50,320	74,011	373,752	687,072
Loans and receivables from customers	1,954,909	552,957	3,138,576	1,583,524	2,392,183	9,622,149
Assets held for sale	-	-	-	-	21,551	21,551
Investments in subsidiaries	-	-	-	-	53,990	53,990
Property and equipment	-	-	-	-	150,849	150,849
Intangible assets	-	-	-	-	203,764	203,764
Deferred tax assets, net	-	-	-	-	36,309	36,309
Other assets	192,162	4,988	9,540	424	102,996	310,110
TOTAL ASSETS	**5,810,445**	**1,185,824**	**3,480,627**	**1,861,245**	**4,113,685**	**16,451,826**
LIABILITIES						
Financial liabilities at fair value through profit or loss	2,580	-	-	-	-	2,580
Deposits from banks	60,523	3,070	-	-	-	63,593
Customer deposits	6,119,989	1,685,985	4,104,422	727,741	64,027	12,702,164
Borrowings	19,051	114,670	183,212	319,099	604,876	1,240,908
Hybrid instruments	-	8,910	200,000	150,000	251,638	610,548
Provisions for liabilities and expenses	16,763	1,256	9,930	5,404	312	33,665
Other liabilities	424,622	12,658	27,677	15,976	62,032	542,965
Total equity	-	-	-	-	1,255,403	1,255,403
TOTAL LIABILITIES AND EQUITY	**6,643,528**	**1,826,549**	**4,525,241**	**1,218,220**	**2,238,288**	**16,451,826**
MATURITY GAP	**(833,083)**	**(640,725)**	**(1,044,614)**	**643,025**	**1,875,397**	**0**
CUMMULATIVE MATURITY GAP	**(833,083)**	**(1,473,808)**	**(2,518,422)**	**(1,875,397)**	**0**	**0**

2. RISK MANAGEMENT (continued)

2.3 Market risk

The exposure to market risk occurs with respect to balance sheet and off-balance-sheet positions recognised at fair value:

- financial assets held for trading
- financial assets available for sale
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All trading instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous (i.e. impaired). Trading financial instruments are recognised at fair value, and all changes in market conditions directly affect trading income. The Bank manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Guidelines.

Market risk management of the Bank is conducted in accordance with regulatory requirements, as is defined by internal policies and procedures regarding market risks which are regularly revised by the Risk Management Division.

The Risk Management Division daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Croatian National Bank's Decision on the capital adequacy of banks;
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used.
- Capital requirement calculated by an internal model (VaR x 4).

In addition the Bank uses the following internally prescribed measures in measuring exposure to debt instrument position risks;

- Duration (measure of the sensitivity of debt security prices to changes in interest rates)
- PV01 which represents the decline of portfolio value in a scenario where interest rates increase by 0.01%.

The Risk Management Division reports daily to the Treasury Division on the usage of market risk exposure limits, daily to the Finance Division regarding the capital requirements for currency risk and position risks, and monthly to the Asset and Liability Management Committee on market risk exposure.

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

a) Trading portfolio

The table below shows the movements in those measures at 31 December 2012 and 31 December 2011:

Bank

2012	**Position HRK 000**	**VaR**
Currency risk	43,497	(422)
Debt instrument position risk	62,488	(494)
Equity instrument position risk	43,013	(2,746)
Position risk of units in investment funds	411,301	(1,775)
Correlation effect		310
Market risk		**(5,127)**
2011		
Currency risk	75,501	(699)
Debt instrument position risk	271,552	(3,105)
Equity instrument position risk	50,189	(3,153)
Position risk of units in investment funds	63,655	(1,530)
Correlation effect		3,377
Market risk		**(5,110)**

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

b) Available-for-sale portfolio

The available-for-sale portfolio consists of debt and equity securities.

The table below shows market value and VaR movements for the portfolio of debt and equity securities available for sale.

Bank

Debt securities	Market value HRK 000	VaR HRK 000
2012	1.284.305	(14,083)
2011	1.355.804	(16,590)

Equity securities	Market value HRK 000	VaR HRK 000
2012	18,630	(4,029)
2011	11,828	(1,804)

2. RISK MANAGEMENT (continued)

2.4 Interest rate risk in the Bank's non-trading book

Interest rate risk in the Bank's non-trading book is a risk which can have a negative effect on economic value of the Bank's book and earnings (net interest income), because of variation of market interest rates. Exposure to interest rate risk in the Bank's non-trading book arises as a consequence of:

- mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps);
- various natures of interest rates (reference rates) applied by the Bank in arranging its lending and borrowing activities.

Accordingly, all interest-rate sensitive items in the Bank's non-trading book are exposed to interest rate risk.

The Bank manages interest rate risk in its non-trading book in accordance with the legal and regulatory requirements. In line with CNB's Decision on the Management of Interest rate risk in the Bank's Non-trading Book, in effect from 31 March 2010, the Bank is required to submit quarterly reports to the CNB about the interest rate risk in the bank's non-trading book, on individual and consolidated basis both.

Apart from those regulations, managing interest rate risk in the bank's non-trading book is regulated by:

- Risk Management Policy; and
- Manual on Managing Interest Rate Risk in the Bank's Non-trading Book.

The Manual on Managing Interest Rate Risk in the Bank's Non-trading Book defines the management process, evaluation methods and measures of exposure to interest rate risk in the bank's non-trading book, as well as exposure limits, manner and frequency of reporting about the Bank's exposure to that risk.

The Bank assesses interest rate risk in the bank's non-trading book by observing this risk from two perspectives:

- Perspective of economic value: a potential market value decrease of the Bank's non-trading book because of interest rate movements in the market;
- Profit perspective: a potential decrease of net interest income because of movements in market interest rates.

Perspective of economic value of capital

The Bank uses simplified calculation of estimated change in economic value of the bank's book by applying standard interest shock on non-trading book positions which are exposed to interest rate risk, for all significant currencies separately and other currencies jointly. Interest sensitive positions of the non-trading book are distributed in 13 time zones, whereby positions with fixed interest rate, variable interest rate and interest rate that can be changed by Management Board's decision (administrative interest rate) are distinguished, and estimates a change in market value of the Bank's non-trading book by applying basic simulation of parallel interest rates movements by 2 basis points. The Bank calculates a ratio between the change in economic value of the non-trading book and regulatory capital, and maintains it on a level below 18 percent (legal ratio prescribed by the CNB's Decision equals 20 percent). Change in economic value of capital amounts to HRK 151,522 thousand or 9.1 percent of regulatory capital as per 2012 year-end (2011.: HRK 147,105 thousand or 9.86 percent).

2. RISK MANAGEMENT (continued)

2.4 Interest rate risk in the Bank's non-trading book (continued)

Profit perspective

The profit perspective takes into account the potential decrease in net interest income as a result of a change in market interest rates. To measure interest rate risk from the profit perspective, the Bank simulates basic parallel movements in interest rates ± 2%, through a time period of 12 months, and the potential decrease in net interest income is to be maintained within a 10% limit of realized net interest income for the observed period (from beginning of the year) projected to a yearly basis. Potential decrease in net interest income amounts to HRK 12,824 thousand, representing 2.72 percent of net interest income (2011: decrease by HRK 15,610 thousand, or 3.21 of net interest income).

Additionally, at least once a year stress tests are conducted, whereby the Bank tests effects of adverse interest rate movements for specific product types on the market, on net interest income, by assuming a decrease of active interest rates and an increase of passive interest rates.

Risk divisions is reporting monthly to the Asset and Liabilities Committee about exposure the interest rate risk in the Bank’s non-trading book.

2.5 Foreign exchange risk

The Bank is exposed to currency risk through transactions in foreign currencies.

Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank directs its business activities trying to minimize the gap between assets and liabilities denominated in or linked to foreign currency.

The Bank manages its currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank directs its business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to a foreign currency, and maintaining daily business activities within the internal and regulatory limits per currency.

The Bank is primarily exposed to changes in the euro exchange rate. As at 31 December 2012, value of assets denominated in euro or in euro linked currencies amounted to HRK 5,912,055 thousand (2011: HRK 6,299,992 thousand), while liabilities denominated in euro or in euro linked currencies amounted to HRK 5,906,344 thousand (2011: HRK 5,888,735 thousand). Hence, a 1 percentage fall in the HRK/EUR exchange rate (appreciation of the HRK) would affect the result in the amount of HRK 57 thousand (2010: HRK 4,112 thousand).

2.5.1 Currency risk analysis

The following tables illustrate the value of total assets and liabilities of the Group and Bank at 31 December 2012 and 31 December 2011 in HRK and foreign currencies (values denominated in HRK with foreign currency clause are mostly linked to EUR).

2. RISK MANAGEMENT (continued)

2.5. Foreign exchange risk

2.5.1 Currency risk analysis

Group 2012

HRK 000	HRK	HRK, currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	865,134	-	191,165	74,270	1,130,569
Obligatory reserve with Croatian National Bank	1,134,146	-	97,738	-	1,231,884
Loans to and receivables from banks	303,439	-	362,938	88,235	754,612
Financial assets at fair value through profit or loss	450,192	121,475	1,699	7,853	581,219
Financial assets available for sale	927,425	198,747	244,209	663	1,371,044
Financial assets held to maturity	606,531	78,886	-	-	685,417
Loans and receivables from customers	5,862,155	4,182,957	643,963	80,415	10,769,490
Assets held for sale	21,551	-	-	-	21,551
Property and equipment	146,462	-	-	-	146,462
Investment property	10,194	-	-	-	10,194
Intangible assets	195,350	-	-	-	195,350
Deferred tax assets, net	21,875	-	-	-	21,875
Tax prepayment	127	-	-	-	127
Other assets	344,732	1,242	390	71	346,435
TOTAL ASSETS	**10,889,313**	**4,583,307**	**1,542,102**	**251,507**	**17,266,229**
LIABILITIES					
Financial liabilities at fair value through profit or loss	11	-	-	359	370
Deposits from banks	322,976	-	182,436	4,106	509,518
Customer deposits	7,902,702	371,953	4,611,526	238,677	13,124,858
Borrowings	181,600	816,876	125,634	-	1,124,110
Hybrid instruments	358,371	51,777	-	-	410,148
Provisions for liabilities and expenses	57,596	-	-	-	57,596
Other liabilities	592,271	14	10,899	25,787	628,971
Total equity	1,410,658	-	-	-	1,410,658
TOTAL LIABILITIES AND EQUITY	**10,826,185**	**1,240,620**	**4,930,495**	**268,929**	**17,266,229**
NET FOREIGN EXCHANGE POSITION	**63,128**	**3,342,687**	**(3,388,393)**	**(17,422)**	**-**

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2. RISK MANAGEMENT (continued)

2.5. Foreign exchange risk

2.5.1 Currency risk analysis

Group 2011

HRK 000	HRK	HRK, currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	899,102	-	144,159	46,938	1,090,199
Obligatory reserve with Croatian National Bank	1,146,886	-	99,763	-	1,246,649
Loans to and receivables from banks	384,740	-	832,431	90,467	1,307,638
Financial assets at fair value through profit or loss	246,438	170,941	2,851	13,908	434,138
Financial assets available for sale	1,180,820	254,507	25,485	673	1,461,485
Financial assets held to maturity	581,215	100,986	4,871	-	687,072
Loans and receivables from customers	4,818,346	4,175,240	635,932	79,085	9,708,603
Assets held for sale	21,551	-	-	-	21,551
Property and equipment	150,970	-	-	-	150,970
Investment property	10,450	-	-	-	10,450
Intangible assets	204,287	-	-	-	204,287
Deferred tax assets, net	37,692	-	-	-	37,692
Tax prepayment	116	-	-	-	116
Other assets	258,358	4,044	68,209	999	331,610
TOTAL ASSETS	**9,940,971**	**4,705,718**	**1,813,701**	**232,070**	**16,692,460**
LIABILITIES					
Financial liabilities at fair value through profit or loss	654	-	-	1,926	2,580
Deposits from banks	25,873	-	19,516	18,204	63,593
Customer deposits	7,632,723	298,991	4,783,922	208,419	12,924,055
Borrowings	278.188	853.946	108.774	-	1.240.908
Hybrid instruments	558.875	51.673	-	-	610.548
Provisions for liabilities and expenses	33.686	-	-	-	33.686
Other liabilities	532.097	-	6.371	35.214	573.682
Total equity	1.243.408	-	-	-	1.243.408
TOTAL LIABILITIES AND EQUITY	**10.305.504**	**1.204.610**	**4.918.583**	**263.763**	**16.692.460**
NET FOREIGN EXCHANGE POSITION	**(364.533)**	**3.501.108**	**(3.104.882)**	**(31.693)**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign exchange risk

2.5.1 Currency risk analysis

Bank 2012
HRK 000

	HRK	HRK, currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	865,133	-	190,537	74,270	1,129,940
Obligatory reserve with Croatian National Bank	1,134,146	-	97,738	-	1,231,884
Loans to and receivables from banks	303,439	-	358,137	88,235	749,811
Financial assets at fair value through profit or loss	444,677	58,995	1,699	7,853	513,224
Financial assets available for sale	899,966	151,263	244,209	663	1,296,101
Financial assets held to maturity	606,531	78,886	-	-	685,417
Loans and receivables from customers	5,869,559	4,084,918	643,963	80,415	10,678,855
Assets held for sale	21,551	-	-	-	21,551
Investments in subsidiaries	53,990	-	-	-	53,990
Property and equipment	146,299	-	-	-	146,299
Intangible assets	194,967	-	-	-	194,967
Deferred tax assets, net	21,241	-	-	-	21,241
Other assets	320,392	1,320	390	71	322,173
TOTAL ASSETS	**10,881,891**	**4,375,382**	**1,536,673**	**251,507**	**17,045,453**
LIABILITIES					
Financial liabilities at fair value through profit or loss	11	-	-	359	370
Deposits from banks	322,976	-	182,436	4,106	509,518
Customer deposits	7,982,004	107,196	4,611,526	238,677	12,939,403
Borrowings	181,600	816,876	125,634	-	1,124,110
Hybrid instruments	358,371	51,777	-	-	410,148
Provisions for liabilities and expenses	56,522	-	-	-	56,522
Other liabilities	557,711	-	10,899	25,787	594,397
Total equity	1,410,985	-	-	-	1,410,985
TOTAL LIABILITIES AND EQUITY	**10,870,180**	**975,849**	**4,930,495**	**268,929**	**17,045,453**
NET FOREIGN EXCHANGE POSITION	**11,711**	**3,399,533**	**(3,393,822)**	**(17,422)**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign exchange risk

2.5.1 Currency risk analysis

Bank 2011
HRK 000

	HRK	HRK, currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	899,087	-	144,159	46,938	1,090,184
Obligatory reserve with Croatian National Bank	1,146,886	-	99,763	-	1,246,649
Loans to and receivables from banks	371,550	-	832,431	90,467	1,294,448
Financial assets at fair value through profit or loss	235,408	111,410	2,851	13,908	363,577
Financial assets available for sale	1,155,046	189,970	25,485	673	1,371,174
Financial assets held to maturity	581,215	100,986	4,871	-	687,072
Loans and receivables from customers	4,826,975	4,080,157	635,932	79,085	9,622,149
Assets held for sale	21,551	-	-	-	21,551
Investments in subsidiaries	53,990	-	-	-	53,990
Property and equipment	150,849	-	-	-	150,849
Intangible assets	203,764	-	-	-	203,764
Deferred tax assets, net	36,309	-	-	-	36,309
Other assets	237,134	3,768	68,209	999	310,110
TOTAL ASSETS	**9,919,764**	**4,486,291**	**1,813,701**	**232,070**	**16,451,826**
LIABILITIES					
Financial liabilities at fair value through profit or loss	654	-	-	1,926	2,580
Deposits from banks	25,873	-	19,516	18,204	63,593
Customer deposits	7,645,955	63,868	4,783,922	208,419	12,702,164
Borrowings	277,523	854,612	108,773	-	1,240,908
Hybrid instruments	558,875	51,673	-	-	610,548
Provisions for liabilities and expenses	33,664	-	-	-	33,664
Other liabilities	501,380	-	6,371	35,214	542,965
Total equity	1,255,404	-	-	-	1,255,404
TOTAL LIABILITIES AND EQUITY	**10,299,328**	**970,153**	**4,918,582**	**263,763**	**16,451,826**
NET FOREIGN EXCHANGE POSITION	**(379,564)**	**3,516,138**	**(3,104,881)**	**(31,693)**	**-**

2. RISK MANAGEMENT (continued)

2.6. Operational risk management

Operational risk is inherent to all activities, processes, products and systems of the Group. The Group ensures appropriate operational risk management by applying procedures and a system of authorizations and responsibilities specified in detail in its internal by-laws, the Risk Management Policy and the Internal Operational Risk Management Manual as root documents. The operational risk management system has been established through appropriate bodies of the Bank and an efficient internal control system.

The Group defines operational risk as a risk of an event which, as a consequence, exposes the Group to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operational risk is a risk of an event resulting in significant loss because of operational risk.

In order to efficiently manage the overall exposure to operational risk, the Group applies the following:

- Collecting and analyzing internal data about operational risk events;
- Self-assessment of risks and controls;
- Assessment of information technology risk; and
- Business Impact Analysis of unavailability of key business processes.

The Group assesses the outsourcing risk as an additional exposure to all significant risks arising from the fact that the Bank does not itself perform the outsourced activities, but rather that those activities are performed by external vendors; hence, the impact of outsourcing on the Bank's risk profile is assessed.

The Group assesses the impact of introducing a new product on the Bank's risk profile, which includes exposure to all significant risks.

For the purpose of efficient operational risk management, the Bank has set up the Operational Risk Management Committee. Based on the reports on the Bank's exposure to operational risk, the Operational Risk Management Committee draws conclusions and makes decisions about appropriate measures necessary to undertake in order to overmaster the exposure to operational risk.

The Group applies the Standardized Approach in calculating the capital requirement for operational risk.

2.7. Capital management

Capital allocation

The amount of capital allocated to individual operations is based primarily on regulatory requirements. The allocation of capital to specific activities is performed independent of individuals in charge of those activities.

Although the maximization of return on the risk-weighted capital is the key basis used in determining the allocation of capital within the Group to individual activities, it is not the only basis in the decision-making process. Taken into account are: synergy with other activities, availability of the Management Board and other resources, as well as the alignment of the activities with the Group's strategic goals in the long run. Managementregularly reviews Group's policies for managing and allocating capital.

2. RISK MANAGEMENT (continued)

2.7 Capital management (continued)

Capital requirement calculations are based on exposures to customers classified into the prescribed exposure categories, which are then weighted according to risk depending on the exposure category of the customer (exposure to sovereign debt, to institutions, public bodies, individuals, etc.), remaining maturity, type of collateral (i.e. residential or commercial property), diversification of loans, identified number of days past due and the amount of provisions made, as defined in the Decision on Regulatory Capital Adequacy. The Bank applies standardized approach when calculating capital requirements.

	2012	2011
	HRK 000	HRK 000
REGULATORY CAPITAL		
Core capital	1,320,383	1,143,376
Supplementary capital	401,742	401,638
Items deductible from regulatory capital	(53,500)	(53,500)
Total regulatory capital	**1,668,625**	**1,491,514**

	2012	2011
	HRK 000	HRK 000
Credit risk exposure (Standardized Approach)	**9,098,923**	**8,955,997**
Capital requirement for foreign exchange risk	7,074	10,804
Capital requirement for positional risk (debt and equity instruments)	38,242	11,598
Capital requirement for risk relating to investments in equity instruments	51,869	23,571
Capital requirement for operational risk	155,298	139,706
Total capital requirements for market and operational risks	**252,483**	**185,679**
Capital adequacy ratio in %	**14.89**	**14.20**

Capital adequacy ratio minimum, as prescribed by the law, equals 12 percent on December 31 2012 (2011: 12 percent).

Regulatory capital as per December 31 2012 includes hybrid instruments amounting to HRK 150.000 thousand, that are to be excluded from regulatory capital calculation from July 31 2013, in line with current regulations. Exclusion of these instruments from regulatory capital calculation at 2012 year-end, would have resulted in regulatory capital equaling HRK 1,518,625 thousand, with capital adequacy ratio of 13.56 percent.

The Bank, through the Asset and Liability Management Committee, continuously monitors the capital adequacy rate and accordingly undertakes measures necessary to perform business policies, especially policy regarding loan placements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's portfolio exposed to credit risk represents the major source of estimation uncertainty. This and other key sources of estimations'uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment losses on loans and receivables

The Group monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Group's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying amount of loans and advances to corporate and retail customers (summarized in Note 11), and as provisions for liabilities and expenses arising from off-balance-sheet risk exposure to customers, mainly in the form of guarantees, documentary credits and undrawn loan commitments (summarized in Notes 24 and 40). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

Following tables represent the summary of impairment losses of loans to and receivables from customers, as well as provisions for off-balance sheet exposures:.

Group	**Notes**	**2012 HRK 000**	**2011 HRK 000**
Impairment losses on loans to and receivables from customers	11	1,106,779	967,754
Provisions for off-balance-sheet exposures	24	41,039	22,325
Total		**1,147,818**	**990,079**

Bank	**Notes**	**2012 HRK 000**	**2011 HRK 000**
Impairment losses on loans to and receivables from customers	11	1,105,192	966,789
Provisions for off-balance-sheet exposures	24	41,016	22,303
Total		**1,146,208**	**989,092**

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Financial assets at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The Group estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, when and where these changes can be correlated with defaults.

The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgment in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Group also has regard to the ranges of specific impairment loss rates prescribed by the CNB.

Gross value of specifically impaired loans and other receivables classified in risk groups B and C, and the rates of recognized impairment losses, were as follows as per year end:

Group	**2012**	**2011**
Gross exposures (in HRK'000)	**2,837,775**	**2,586,156**
Impairment loss (in HRK '000)	1.023.101	887.602
Impairment rate	**36.1%**	**34.3%**

Bank	**2012**	**2011**
Gross exposures (in HRK'000)	**2,837,157**	**2,586,147**
Impairment loss (in HRK '000)	1.022.959	887.597
Impairment rate	**36.1%**	**34.3%**

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2012 would lead to recognition of additional impairment loss amounting to HRK 28,378 thousand for the Group (2011: HRK 25,862 thousand), and HRK 28,372 thousand for the Bank (2011: HRK 25,861 thousand).

The Group also seeks to recognise impairment losses which are known to exist at the reporting date, but which have not yet been specifically identified. In estimating identified impairment losses that exist in collectively assessed portfolios, and in the absence of reliable data on historical loss rates and the emergence period for the identification of these impairment losses, the Group has regard to the range of impairment loss rates of 0.85% to 1.20% prescribed by the CNB to be calculated on all credit risk exposures except those carried at fair value, including off-balance-sheet amounts (lending commitments and credit card limits) and Croatian sovereign risk. The amounts assessed as impaired on an individual basis are excluded from this calculation.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Financial assets at amortized cost (continued)

The amount of impairment allowance at 31 December 2012 estimated on a portfolio basis amounted to HRK 145,914 thousand (2011: HRK 142,147 thousand) of relevant on- and off-balance-sheet exposure of the Group, and HRK 144,446 thousand (2011: HRK 141,166 thousand) of relevant on- and off-balance-sheet exposure of the Bank.

At the minimum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 21,818 thousand (2011: HRK 21,354 thousand) lower than the amount recognised by the Group and HRK 21,772 thousand (2010: HRK 21,387 thousand) lower than the amount recognised by the Bank.

At the maximum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 29,281 thousand (2011: HRK 21,354 thousand) higher than the amount recognised by the Group and HRK 28,741 thousand (2011: HRK 27,934 thousand) higher than the amount recognised by the Bank.

Market value of pledged property and foreclosed assets

As disclosed in Note 2.1.4 (c), loans and receivables to customers at 31 December 2012 include exposures with a carrying value of HRK 2,800,444 thousand classified by the Bank as impaired in view of delinquencies in payment. A proportion of these loans is secured with collateral in the form of property, plant and equipment. When assessing loan recoverability based on pledged property, market value of pledged property is discounted to present value by applying discount factors and periods prescribed by internal acts. In addition, as disclosed in Note 18, other assets at 31 December 2012 include property, plant and equipment with carrying value of HRK 177,596 thousand (2011: HRK 132,279 thousand), representing foreclosed assets collected in settlement of non-performing debt. No discrepancies between the carrying amount and the fair value had been determined in 2012, and therefore, impairments on these assets were not recognized in the income statement (2011: impairment loss of HRK 5,275 thousand). As per 31 December 2012, net book value of foreclosed assets amounts to HRK 149,544 thousand (2011: HRK 104,147 thousand).

Fair value of derivatives

Fair value of OTC derivatives that are quoted on active market is determined using their closing market price.For derivatives that are not traded on active markets, Bank determines contractual value applying internally developed models for fair value assessment.

Fair value of treasury bills

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia using an internal model which takes into account their remaining maturity and latest available auction prices of equivalent instruments. As at 31 December 2012, the Bank did not have treasury bills classified as financial assets at fair value through profit or loss (2011: HRK 93,311 thousand). As at 31 December 2012, carrying amount of treasury bills classified as financial assets available for sale amounted to HRK 367,060 thousand (2011: HRK 494,785 thousand).

Fair value of the financial instruments quoted in an active market

In estimating the fair value of quoted debt financial instruments, the Bank does not use closing prices at the date of estimation, but applies average prices which are based on the individual transaction volumes of the specified instruments during the day of estimation. This method provides a more realistic indication of the real price of the instrument, and decreases the risk of inadequate or inappropriate estimation of fair value which may result from limited trading of the instrument just before the end of the trading period, at a price which significantly differs from the daily average.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Result of such policy is that financial assets at fair value through profit or loss amounting to HRK 55,600 thousand (2011: HRK 147,943 thousand) are carried at an amount higher by HRK 513 thousand (2011: HRK 1,268 thousand lower)than had the closing prices been applied. Furthermore, financial assets available for sale in amount of HRK 903,230 thousand (2011: HRK 843,673 thousand) are being carried at an amount higher by HRK 6,796 thousand (2011: HRK 3,899 thousand lower) than had the closing prices been applied.

Provisions for court cases initiated against the Group

In calculating provisions for court expenses, the Group discounts expected future cash flows with respect to the liabilities using the CNB's discount rate.

Taxation

The Group recognises tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of tax authorities that are entitled to carry out subsequent inspections of taxpayers' records.

4. SEGMENT REPORTING

The Group's business segments represent the primary reportable segments. The primary format is based on the Group's management and internal reporting structure. As the Group does not allocate overhead expenses and equity to segments, segment profitability is not reported.

Business segments

The Group comprises following primary business segments:

- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers;
- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers;
- *Treasury* — Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities;
- *Investment Banking* — Includes the Group's corporate and retail finance activities and asset management activities, as well as custody services.

4 SEGMENT REPORTING (continued)

Group	Corporate	Retail	Treasury	Investment banking	Unallocated	2012 HRK 000 Total
Net interest income	307,312	77,337	88,492	125	6,428	479,694
Net fee and commission income	39,713	122,075	(199)	6,111	16,394	184,094
Trading and investment income	-	-	48,957	-	9,149	58,106
Other income	23,243	3,565	8,702	92	161	35,763
Operating income	**370,268**	**202,977**	**145,952**	**6,328**	**32,132**	**757,657**
General and administrative expenses	-	-	-	-	(422,644)	(422,644)
Depreciation and amortisation	-	-	-	-	(58,956)	(58,956)
Impairment losses on loans and other assets	(115,057)	(23,219)	(10,366)	(113)	(540)	(149,295)
Provisions for liabilities and expenses	-	-	-	-	(24,269)	(24,269)
Operating expenses	**(115,057)**	**(23,219)**	**(10,366)**	**(113)**	**(506,409)**	**(655,164)**
Profit before taxation	**-**	**-**	**-**	**-**	**-**	**102,493**
Income tax	-	-	-	-	299	299
Profit for the year	**-**	**-**	**-**	**-**	**299**	**102,792**
Segment assets	8,049,848	3,776,295	4,582,567	52,659	-	16,461,369
Unallocated assets	-	-	-	-	805,452	805,452
Total assets	**8,049,848**	**3,776,295**	**4,582,567**	**52,659**	**805,452**	**17,266,821**
Segment liabilities	6,121,415	7,746,405	1,095,250	105,871	-	15,068,941
Unallocated equity and liabilities	-	-	-	-	2,197,880	2,197,880
Total equity and liabilities	**6,121,415**	**7,746,405**	**1,095,250**	**105,871**	**2,197,880**	**17,266,821**

4 SEGMENT REPORTING (continued)

Group						**2011 HRK 000**
	Corporate	**Retail**	**Treasury**	**Investment banking**	**Unallocated**	**Total**
Net interest income	312,783	75,091	98,067	50	6,338	492,329
Net fee and commission income	34,394	140,018	124	4,673	15,292	194,501
Trading and investment income	-	-	20,346	-	(3,658)	16,688
Other income	10,899	804	10,550	202	950	23,405
Operating income	**358,076**	**215,913**	**129,087**	**4,925**	**18,922**	**726,923**
General and administrative expenses	(25,936)	(169,309)	(5,242)	(5,716)	(247,693)	(453,896)
Depreciation and amortisation	-	-	-	-	(62,435)	(62,435)
Impairment losses on loans and other assets	(127,215)	(15,836)	16,248	(4)	(5,193)	(132,000)
Provisions for liabilities and expenses	-	-	-	-	1,796	1,796
Operating expenses	**(153,151)**	**(185,145)**	**11,006**	**(5,720)**	**(313,524)**	**(646,535)**
Profit before taxation						80,389
Income tax	-	-	-	-	5,366	5,366
Profit for the year	**-**	**-**	**-**	**-**	**5,366**	**85,755**
Segment assets	7,318,199	3,454,237	5,119,312	46,243	-	15,937,991
Unallocated assets	-	-	-	-	754,469	754,469
Total assets	**7,318,199**	**3,454,237**	**5,119,312**	**46,243**	**754,469**	**16,692,460**
Segment liabilities	6,623,362	7,482,855	600,865	40,319	-	14,747,401
Unallocated equity and liabilities	-	-	-	-	1,945,059	1,945,059
Total equity and liabilities	**6,623,362**	**7,482,855**	**600,865**	**40,319**	**1,945,059**	**16,692,460**

4 SEGMENT REPORTING (continued)

Bank

	Corporate	Retail	Treasury	Investment banking	Unallocated	2012 HRK 000 Total
Net interest income	307,312	77,337	88,492	125	-	473,266
Net fee and commission income	41,718	122,075	(199)	6,111	498	170,203
Trading and investment income	-	-	48,957	-	-	48,957
Other income	25,917	3,565	8,703	92	-	38,277
Operating income	**374,947**	**202,977**	**145,953**	**6,328**	**498**	**730,703**
General and administrative expenses	(22,612)	(161,327)	(4,753)	(5,135)	(212,689)	(406,516)
Depreciation and amortisation	-	-	-	-	(58,453)	(58,453)
Impairment losses onloans and other assets	(115,057)	(23,219)	(10,366)	(113)	-	(148,755)
Provisions for liabilities and expenses	-	-	-	-	(23,217)	(23,217)
Operating expenses	**(137,669)**	**(184,546)**	**(15,119)**	**(5,248)**	**(294,359)**	**(636,941)**
Profit before taxation	**-**	**-**	**-**	**-**	**-**	93,762
Income tax	-	-	-	-	301	301
Profit for the year	**-**	**-**	**-**	**-**	**301**	**94,063**
Segment assets	8,136,554	3,776,295	4,582,567	106,649	-	16,602,065
Unallocated assets	-	-	-	-	443,388	443,388
Total assets	**8,136,554**	**3,776,295**	**4,582,567**	**106,649**	**443,388**	**17,045,453**
Segment liabilities	6,208,121	7,746,405	1,095,250	105,871	-	15,155,647
Unallocated equity and liabilities	-	-	-	-	1,889,806	1,889,806
Total equity and liabilities	**6,208,121**	**7,746,405**	**1,095,250**	**105,871**	**1,889,806**	**17,045,453**

4 SEGMENT REPORTING (continued)

Bank — 2011, HRK 000

	Corporate	Retail	Treasury	Investment banking	Unallocated	Total
Net interest income	312,783	75,091	98,067	50	-	485,991
Net fee and commission income	36,768	140,018	124	4,673	(1,034)	180,549
Trading and investment income	-	-	20,346	-	-	20,346
Other income	13,191	804	10,550	202	-	24,747
Operating income	**362,742**	**215,913**	**129,087**	**4,925**	**(1,034)**	**711,633**
General and administrative expenses	(25,936)	(169,309)	(5,242)	(5,716)	(230,584)	(436,787)
Depreciation and amortisation	-	-	-	-	(61,922)	(61,922)
Impairment losses onloans and other assets	(127,215)	(15,836)	16,248	(4)	(5,522)	(132,329)
Provisions for liabilities and expenses	-	-	-	-	1,801	1,801
Operating expenses	**(153,151)**	**(185,145)**	**11,006**	**(5,720)**	**(296,227)**	**(629,237)**
Profit before taxation	**-**	**-**	**-**	**-**	**-**	82,396
Income tax	-	-	-	-	5,528	5,528
Profit for the year	**-**	**-**	**-**	**-**	**5,528**	**87,924**
Segment assets	7,340,060	3,454,237	5,119,312	100,233	-	16,013,842
Unallocated assets	-	-	-	-	437,984	437,984
Total assets	**7,340,060**	**3,454,237**	**5,119,312**	**100,233**	**437,984**	**16,451,826**
Segment liabilities	6,645,223	7,482,855	600,865	40,319	-	14,769,262
Unallocated equity and liabilities	-	-	-	-	1,682,564	1,682,564
Total equity and liabilities	**6,645,223**	**7,482,855**	**600,865**	**40,319**	**1,682,564**	**16,451,826**

5. CASH AND RECEIVABLES FROM BANKS

Group

	2012 HRK 000			2011 HRK 000		
	HRK	in foreign currency	Total	HRK	in foreign currency	Total
Cash in hand						
Held by the Group	161,289	105,446	266,735	238,012	142,761	380,773
Held by other parties	174,418	-	174,418	163,221	-	163,221
Cheques in the course of collection	-	34	34	-	26	26
	335,707	**105,480**	**441,187**	**401,233**	**142,787**	**544,020**
Amounts due from banks						
Current accounts with domestic banks	-	855	855	-	1,831	1,831
Current accounts with foreign banks	-	158,471	158,471	-	46,479	46,479
Giro account with the CNB	530,056	-	530,056	497,869	-	497,869
	530,056	**159,326**	**689,382**	**497,869**	**48,310**	**546,179**
Total	**865,763**	**264,806**	**1,130,569**	**899,102**	**191,097**	**1,090,199**

Bank

	2012 HRK 000			2011 HRK 000		
	HRK	in foreign currency	Total	HRK	in foreign currency	Total
Cash in hand						
Held by the Bank	160,660	105,446	266,106	237,997	142,761	380,758
Held by other parties	174,418	-	174,418	163,221	-	163,221
Cheques in the course of collection	-	34	34	-	26	26
	335,078	**105,480**	**440,558**	**401,218**	**142,787**	**544,005**
Amounts due from banks						
Current accounts with domestic banks	-	855	855	-	1,831	1,831
Current accounts with foreign banks	-	158,471	158,471	-	46,479	46,479
Giro account with the CNB	530,056	-	530,056	497,869	-	497,869
	530,056	**159,326**	**689,382**	**497,869**	**48,310**	**546,179**
Total	**865,134**	**264,806**	**1,129,940**	**899,087**	**191,097**	**1,090,184**

6. OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

	Group		Bank	
	2012	2011	2012	2011
	HRK 000	HRK 000	HRK 000	HRK 000
Obligatory reserve				
- in HRK	1,134,137	1,146,838	1,134,137	1,146,838
- in foreign currency	97,739	99,763	97,739	99,763
Accrued interest due	8	48	8	48
Accrued interest not yet due	-	-	-	-
Total	**1,231,884**	**1,246,649**	**1,231,884**	**1,246,649**

The obligatory reserve with the CNB represents the amount required to be deposited with the CNB.

The obligatory reserve requirement was set at 14 percent of HRK and foreign currency deposits, borrowings and issued debt securitiesuntil May 9 2012,when it was reducedto13.5 percent, where it stands at 31 December 2012 (2011: 14%).

As at December 31 2012 required minimum rate of maintenance of the HRK obligatory reserve with the CNB equaled 70 percent (2011.: 70 percent), whereas the remaining 30 percent (2011: 30%) could be held in the form of other liquid receivables.This includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

60% of the foreign currency obligatory reserve (2011: 60%) is maintained with the CNB, while the remaining 40% (2011: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). 75% (2011: 75%) of the foreign currency obligatory reserve is required to be held in HRK and is added to the HRK obligatory reserve (see above).

The CNB does not pay the fee on obligatory reserve fund (until March 2011: 0.25%).

7. LOANS TO AND RECEIVABLES FROM BANKS

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Short-term placements with domestic banks	53,336	215,223	48,582	202,033
Short-term placements with foreign banks	391,259	913,426	391,259	913,426
Short-term loans to domestic banks	-	2,800	-	2,800
Total short-term placements and loans banks	**444,595**	**1,131,449**	**439,841**	**1,118,259**
Guarantee deposits with foreign banks	6,379	7,203	6,379	7,203
Long-term placements with domestic banks	31,318	42,274	31,318	42,274
Long-term loans to domestic banks - HBOR	271,675	124,982	271,675	124,982
Total short-term placements and loans banks	**309,372**	**174,459**	**309,372**	**174,459**
Short-term placements with domestic non-banking financial institutions	500	500	500	500
Long-term placements with domestic non-banking financial institutions	363	340	363	340
Long-term placements with domestic non-banking financial institutions	**863**	**840**	**863**	**840**
Provisions for impairment losses (non banking financial institutions)	**(500)**	**(500)**	**(500)**	**(500)**
Accrued interest not yet due	282	1,390	235	1,390
Total interest receivable	**282**	**1,390**	**235**	**1,390**
Total	**754,612**	**1,307,638**	**749,811**	**1,294,448**

Long-term placements with domestic banks include an amount of HRK 31,318 thousand (2011: HRK 42,274 thousand) held at domestic banks, pledged as collateral for the repayment of long-term borrowings repayable in 17 installments from September 14 2009 to September 14 2015. Guarantee deposits mainly relate to deposits for card operations.

Movements in impairment allowance

No changes in impairment allowance for loans and receivables from banks occured in 2012 (2011: -).

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Balance at 1 January	500	500	500	500
(Decrease)/increase in impairment loss on loans to and receivables from banks	-	-	-	-
Balance at 31 December	**500**	**500**	**500**	**500**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Trading instruments				
Debt securities quoted on active markets				
Bonds of the Ministry of Finance	122,082	206,985	55,600	143,827
Corporate bonds and commercial papers	-	4,116	-	4,116
Debt securities quoted in an active market	**122,082**	**211,101**	**55,600**	**147,943**
Debt securities not quoted in an active market				
Treasury bills of the Croatian Ministry of Finance	-	98,279	-	93,311
Units in investment funds quoted in an active market	411,745	64,903	411,301	63,655
Equity securities quoted in an active market	43,013	50,189	43,013	50,189
	454,758	**213,371**	**454,314**	**207,155**
Positive fair value of financial instruments				
- forward contracts, OTC	806	2,973	806	2,973
	806	**2,973**	**806**	**2,973**
Accrued interest not yet due	**3,573**	**6,693**	**2,504**	**5,506**
Total	**581,219**	**434,138**	**513,224**	**363,577**

9. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Debt securities not quoted on active markets				
Bonds of the Ministry of Finance	843,796	850,440	771,919	767,383
Corporate bonds	131,311	76,290	131,311	76,290
	975,107	**926,730**	**903,230**	**843,673**
Debt securities not quoted on active markets				
Treasury bills of the Croatian Ministry of Finance	369,097	500,904	367,060	494,785
Equity securities not quoted on active markets				
- Corporate	2,198	2,208	2,198	2,208
- Non-banking financial institutions	1,334	1,334	1,334	1,334
	3.532	**3,542**	**3.532**	**3,542**
Equity securities quoted in an active market				
- Corporate	-	-	-	-
- Non-banking financial institutions	18.630	11,828	18.630	11,828
	18.630	**11,828**	**18.630**	**11,828**
Accrued interest due	15	-	15	-
Accrued interest not yet due	15,029	18,481	14,000	17,346
Provisions for impairment losses	(10,366)	-	(10,366)	-
Total	**1,371,044**	**1,461,485**	**1,296,101**	**1,371,174**

In accordance with the applicable accounting policies, the Bank recognizes available-for-sale financial assets at fair value with changes in fair value recognized within a fair value reserve in equity.

9. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Movement in impairment allowance for financial assets available for sale

Group			**2012 HRK 000**			**2011 HRK 000**
	Individually identified losses	**Portfolio-based losses**	**Total**	**Individually identified losses**	**Portfolio-based losses**	**Total**
At 1 January	-	**-**	**-**	**16,248**	**-**	**16,248**
Increase / (decrease) of impairment losses	10,366	-	**10,366**	(16,248)		**(16,248)**
At 31 December	**10,366**	**-**	**10,366**	-	**-**	**-**

Bank			**2012 HRK 000**			**2011 HRK 000**
	Individually identified losses	**Portfolio-based losses**	**Total**	**Individually identified losses**	**Portfolio-based losses**	**Total**
At 1 January	**-**	**-**	**-**	**16,248**	**-**	**16,248**
Increase / (decrease) of impairment losses	10,366	-	**10,366**	(16,248)	**-**	**(16,248)**
At 31 December	**10,366**	**-**	**10,366**	-	**-**	**-**

10. FINANCIAL ASSETS HELD TO MATURITY

	Group 2012 HRK 000	Group 2011 HRK 000	Bank 2012 HRK 000	Bank 2011 HRK 000
Bonds of the Ministry of Finance	435,979	455,854	435,979	455,854
HBOR bonds (Croatian development bank)	-	5,997	-	5,997
Corporate bonds	19,284	19,081	19,284	19,081
Bills of exchange	254,190	230,169	254,190	230,169
	709,453	**711,101**	**709,453**	**711,101**
Accrued interest not yet due	**8,717**	**7,852**	**8,717**	**7,852**
Provisions for impairment losses	**(26,195)**	**(25,042)**	**(26,195)**	**(25,042)**
Portfolio based impairment allowance for identified losses	**(6,558)**	**(6,839)**	**(6,558)**	**(6,839)**
Total	**685,417**	**687,072**	**685,417**	**687,072**

Movement in impairment allowance for financial assets held to maturity

The movements in the impairment allowance for financial assets held to maturity, recognised in the income statement, were as follows:

Group			**2012 HRK 000**			**2011 HRK 000**
	Individually identified losses	**Portfolio-based losses**	**Total**	**Individually identified losses**	**Portfolio-based losses**	**Total**
At 1 January	**25,042**	**6,839**	**31,881**	**23,666**	**5,861**	**29,527**
Increase / (decrease) of impairment losses	1,152	(281)	**871**	1,376	978	**2,354**
At 31 December	**26,194**	**6,558**	**32,752**	**25,042**	**6,839**	**31,881**

Bank			**2012 HRK 000**			**2011 HRK 000**
	Individually identified losses	**Portfolio-based losses**	**Total**	**Individually identified losses**	**Portfolio-based losses**	**Total**
At 1 January	**25,042**	**6,839**	**31,881**	**23,666**	**5,394**	**29,060**
Increase / (decrease) of impairment losses	1,152	(281)	**871**	1,376	1,445	**2,821**
At 31 December	**26,194**	**6,558**	**32,752**	**25,042**	**6,839**	**31,881**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Short-term loans				
Corporate	2,346,486	3,532,654	2,346,486	3,532,654
Retail	963,910	805,599	963,910	805,599
Total short-term loans	**3,310,396**	**4,338,253**	**3,310,396**	**4,338,253**
Long-term loans				
Corporate	5,600,172	3,658,475	5,607,576	3,667,105
Retail	2,905,337	2,611,182	2,805,816	2,515,280
Total long-term loans	**8,505,509**	**6,269,657**	**8,413,392**	**6,182,385**
Total gross loans	**11,815,905**	**10,607,910**	**11,723,788**	**10,520,638**
Accrued interest due	32,697	44,104	32,592	43,964
Accrued interest not yet due	27,667	24,343	27,666	24,336
Provisions for impairment losses	**(987,607)**	**(854,771)**	**(987,548)**	**(854,766)**
Portfolio based impairment allowance for identified losses	**(119,172)**	**(112,983)**	**(117,643)**	**(112,023)**
Total	**10,769,490**	**9,708,603**	**10,678,855**	**9,622,149**
Total impairment allowance and provisions as a percentage of gross loans to customers	**9.37%**	**9.12%**	**9.43%**	**9.19%**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Movements in impairment allowance

Movements in the impairment allowance on loans to and receivables from customers were as follows:

Group			**2012 HRK 000**			**2011 HRK 000**
	Individually identified losses	**Portfolio-based losses**	**Total**	**Individually identified losses**	**Portfolio-based losses**	**Total**
At 1 January	**854,771**	**112,983**	**967,754**	**729,976**	**105,494**	**835,470**
Increase/ (decrease) of impairment losses	132,919	6,105	**139,024**	119,710	7,489	**127,199**
Amounts recovered during the year	-	-	**-**	(481)	-	**(481)**
Net foreign exchange loss/(gain)	499	-	**499**	5,892	-	**5,892**
Write-offs and other	(498)	-	**(498)**	(326)	**-**	**(326)**
At 31 December	**987,691**	**119,088**	**1,106,779**	**854,771**	**112,983**	**967,754**

Bank			**2012 HRK 000**			**2011 HRK 000**
	Individually identified losses	**Portfolio-based losses**	**Total**	**Individually identified losses**	**Portfolio-based losses**	**Total**
At 1 January	**854,766**	**112,023**	**966,789**	**729,939**	**104,658**	**834,597**
Increase/ (decrease) of impairment losses	132,868	5,620	**138,488**	119,742	7,365	**127,107**
Amounts recovered during the year	-	-	**-**	(481)	-	**(481)**
Net foreign exchange loss/(gain)	413	-	**413**	5,892	-	**5,892**
Write-offs and other	(498)	-	**(498)**	(326)	-	**(326)**
At 31 December	**987,549**	**117,643**	**1,105,192**	**854,766**	**112,023**	**966,789**

12. ASSETS HELD FOR SALE

a) The Group's assets held for saleinclude:

	Industry	Domicile	Ownership at 31 December 2012 %
H1 Telekom d.d.	Telecommunications	Croatia	41.25

Bank had made an agreement with H1 Telekom d.d., Spliton 25 March 2008,on conversion of the Bank's receivables into H1 Telekom's share capital, based on a long-term loan contract.

Given that the Bank has no intention of holding abovementioned equity stake, it classified it as assets held for sale in accordance with IFRS 5: *Non-current Assets Held for Sale and Discounted Operations*.

Based on fair value assessment, it has been determined that carrying value of the investment as per 31 December 2012 does not differ from fair market value.Accordingly, no impairment losses were recognizedin the income statement (2011: 0).

Business results of H1 Telekom d.d. arereflected in the consolidated financial statements of the Group.

b) Assets held for sale are as follows:

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
H1 Telekom d.d.	22,551	21,551	21,551	21,551
Total	**22,551**	**21,551**	**21,551**	**21,551**

c) Movements in assets held for sale:

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Balance at 1 January	**21,551**	**21,551**	**21,551**	**21,551**
Impairment loss	-	-	-	-
Balance at 31 December	**21,551**	**21,551**	**21,551**	**21,551**

13. INVESTMENTS IN SUBSIDIARIES

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Ownership at 31 December 2012 %
HPB Invest d.o.o.	Investment fund management	Croatia	100
HPB Nekretnine d.o.o.	Real estate agency and construction	Croatia	100
HPB Stambenaštedionicad.d.	Savings bank	Croatia	100

All the subsidiaries are fully consolidated in the Group's financial statements.

b) Investments in subsidiaries are as follows:

	Bank	
	2012 HRK 000	2011 HRK 000
HPB Invest d.o.o.	13,500	13,500
HPB Nekretnine d.o.o.	490	490
HPB Stambenaštedionicad.d.	40,000	40,000
Total	**53,990**	**53,990**

c) Movements of investments in subsidiaries:

	Bank	
	2012 HRK 000	2011 HRK 000
Balance at 1 January	53,990	**73,990**
Decrease of investments in HPB Nekretnined.o.o. occurring in 2011	-	(20,000)
Balance at 31 December	**53,990**	**53,990**

14. PROPERTY AND EQUIPMENT

Group

2012	Land and buildings HRK 000	Computers, equipment and motor vehicles HRK 000	Assets under construction HRK 000	Total HRK 000
Cost				
Balance at 1 January 2012	152,594	275,669	5,472	433,735
Revaluation of land and buildings	-	-	-	-
Additions	-	-	20,128	20,128
Amounts written-off	-	(2,344)	-	(2,344)
Brought into use	18	21,763	(21,781)	-
Balance at 31 December 2012	**152,612**	**295,088**	**3,819**	**451,519**
Accumulated depreciation				
Balance at 1 January 2012	(51,208)	(231,557)	-	(282,765)
Charge for the year	(2,582)	(21,963)	-	(24,545)
Revaluation	(69)	-	-	(69)
Amounts written-off	-	2,322	-	2,322
Balance at 31 December 2012	**(53,859)**	**(251,198)**	**-**	**(305,057)**
Net book value				
Balance at 1 January 2012	101,386	44,112	5,472	150,970
Balance at 31 December 2012	**98,753**	**43,890**	**3,819**	**146,462**

Group

2011	Land and buildings HRK 000	Computers, equipment and motor vehicles HRK 000	Assets under construction HRK 000	Total HRK 000
Cost				
Balance at 1 January 2011	157,997	258,775	2,398	419,170
Revaluation of land and buildings	-	-	-	-
Additions	4,407	-	24,134	28,541
Amounts written-off	-	(4,132)	-	(4,132)
Disposals	(9,844)	-	-	(9,844)
Brought into use	34	21,026	(21,060)	-
Balance at 31 December 2011	**152,594**	**275,669**	**5,472**	**433,735**
Accumulated depreciation				
Balance at 1 January 2011	(53,460)	(212,075)	-	(265,535)
Charge for the year	(2,792)	(23,490)	-	(26,282)
Revaluation	(749)	-	-	(749)
Amounts written-off	-	4,009	-	4,009
Disposals	5,792	-	-	5,792
Balance at 31 December 2011	**(51,209)**	**(231,556)**	**-**	**(282,765)**
Net book value				
Balance at 1 January 2011	104,537	46,700	2,398	153,635
Balance at 31 December 2011	**101,385**	**44,113**	**5,472**	**150,970**

As at 31 December 2012, assets in the course of construction comprise equipment at cost of HRK 3,819 thousand (2011: HRK 5,472 thousand).

14 PROPERTY AND EQUIPMENT (continued)

Bank

2012	**Land and buildings HRK 000**	**Computers, equipment and motor vehicles HRK 000**	**Assets under construction HRK 000**	**Total HRK 000**
Cost				
Balance at 1 January 2012	152,594	275,353	5,473	433,420
Revaluation of land and buildings	-	-	-	-
Additions	-	-	20,038	20,038
Amounts written-off	-	(2,301)	-	(2,301)
Brought into use	18	21,673	(21,691)	**-**
Balance at 31 December 2012	**152,612**	**294,725**	**3,820**	**451,157**
Accumulated depreciation				
Balance at 1 January 2012	(51,208)	(231,363)	-	(282,571)
Charge for the year	(2,582)	(21,927)	-	(24,509)
Revaluation of land and buildings	(69)	-	-	(69)
Amounts written-off	-	2,291	-	2,291
Balance at 31 December 2012	**(53,859)**	**(250,999)**	**-**	**(304,858)**
Net book value				
Balance at 1 January 2012	101,386	43,990	5,473	150,849
Balance at 31 December 2012	**98,753**	**43,725**	**3,820**	**146,299**

Bank

2011	**Land and buildings HRK 000**	**Computers, equipment and motor vehicles HRK 000**	**Assets under construction HRK 000**	**Total HRK 000**
Cost				
Balance at 1 January 2011	157,997	258,529	2,399	418,925
Revaluation of land and buildings	-	-	-	-
Additions	4,407	-	24,028	28,435
Amounts written-off	-	(4,096)	-	(4,096)
Disposals	(9,844)	-	-	(9,844)
Brought into use	34	20,920	(20,954)	-
Balance at 31 December 2011	**152,594**	**275,353**	**5,473**	**433,420**
Accumulated depreciation				
Balance at 1 January 2011	**(53,460)**	**(211,883)**	**-**	**(265,343)**
Charge for the year	(2,791)	(23,452)	-	(26,243)
Revaluation of land and buildings	(749)	-	-	(749)
Amounts written-off	-	3,972	-	3,972
Disposals	5,792	-	-	5,792
Balance at 31 December 2011	**(51,208)**	**(231,363)**	**-**	**(282,571)**
Net book value				
Balance at 1 January 2011	104,537	46,646	2,399	153,582
Balance at 31 December 2011	**101,386**	**43,990**	**5,473**	**150,849**

As at 31 December 2012, assets in the course of construction comprise equipment at cost of HRK 3,820 thousand (2011: HRK 5,473 thousand).

15. INVESTMENT PROPERTIES

Group	**2012** **HRK 000**	**2011** **HRK 000**
Cost		
Balance at 1 January	11,596	11,596
Additions	-	-
Amounts written-off	-	-
Disposals	-	-
Balance at 31 December	**11,596**	**11,596**
Accumulated depreciation		
Balance at 1 January	(1,146)	(893)
Disposals	-	-
Charge for the year	(256)	(253)
Balance at 31 December	**(1,402)**	**(1,146)**
Net book value		
Balance at 1 January	10,450	10,703
Balance at 31 December	**10,194**	**10,450**

16. INTANGIBLE ASSETS

Group

2012	**Software HRK 000**	**Leasehold improvements HRK 000**	**Licences HRK 000**	**Assets under construction HRK 000**	**Total HRK 000**
Cost					
Balance at 1 January 2012	205,087	70,919	54,086	31,100	361,192
Additions	-	-	-	25,197	25,197
Brought into use	19,275	9,202	8,736	(37,213)	-
Amounts written-off	-	-	-	-	-
Balance at 31 December 2012	**224,362**	**80,121**	**62,822**	**19,084**	**386,389**
Accumulated amortisation					
Balance at 1 January 2012	(60,198)	(60,325)	(36,382)	-	(156,905)
Charge for the year	(22,279)	(6,604)	(5,251)	-	(34,134)
Amounts written-off	-	-	-	-	-
Balance at 31 December 2012	**(82,477)**	**(66,929)**	**(41,633)**	**-**	**(191,039)**
Net book value					
Balance at 1 January 2012	144,889	10,594	17,704	31,100	204,287
Balance at 31 December 2012	**141,885**	**13,192**	**21,189**	**19,084**	**195,350**

Group

2011	**Software HRK 000**	**Leasehold improvements HRK 000**	**Licences HRK 000**	**Assets under construction HRK 000**	**Total HRK 000**
Cost					
Balance at 1 January 2011	195,513	66,484	51,324	32,822	346,143
Additions	-	-	-	15,135	15,135
Brought into use	9,660	4,435	2,762	(16,857)	-
Amounts written-off	(86)	-	-	-	(86)
Balance at 31 December 2011	**205,087**	**70,919**	**54,086**	**31,100**	**361,192**
Accumulated amortisation					
Balance at 1 January 2011	(39,742)	(50,651)	(30,698)	-	(121,091)
Charge for the year	(20,542)	(9,674)	(5,684)	-	(35,900)
Amounts written-off	86	-	-	-	86
Balance at 31 December 2011	**(60,198)**	**(60,325)**	**(36,382)**	**-**	**(156,905)**
Net book value					
Balance at 1 January 2011	155,771	15,833	20,626	32,822	225,052
Balance at 31 December 2011	**144,889**	**10,594**	**17,704**	**31,100**	**204,287**

As at 31 December 2012 assets in the course of construction comprise application software, licences and leasehold improvements at a cost of HRK 19,084 thousand (2011: HRK 31,000 thousand) which are being prepared for use by the Group.

16. INTANGIBLE ASSETS (continued)

Bank

2012	Software HRK 000	Leasehold improvements HRK 000	Licences HRK 000	Assets under construction HRK 000	Total HRK 000
Cost					
Balance at 1 January 2012	**204,164**	**70,720**	**54,086**	**31,097**	**360,067**
Additions	-	-	-	25,147	25,147
Brought into use	19,275	9,152	8,736	(37,163)	-
Amounts written-off	-	-	-	-	-
Balance at 31 December 2012	**223,439**	**79,872**	**62,822**	**19,081**	**385,214**
Accumulated amortisation					
Balance at 1 January 2012	**(59,654)**	**(60,267)**	**(36,382)**	**-**	**(156,303)**
Charge for the year	(22,141)	(6,552)	(5,251)	-	(33,944)
Amounts written-off	-	-	-	-	-
Balance at 31 December 2012	**(81,795)**	**(66,819)**	**(41,633)**	**-**	**(190,247)**
Net book value					
Balance at 1 January 2012	144,510	10,453	17,704	31,097	203,764
Balance at 31 December 2012	**141,644**	**13,053**	**21,189**	**19,081**	**194,967**

Bank

2011	Software HRK 000	Leasehold improvements HRK 000	Licences HRK 000	Assets under construction HRK 000	Total HRK 000
Cost					
Balance at 1 January 2011	**195,005**	**66,311**	**51,324**	**32,819**	**345,459**
Additions	-	-	-	14,694	14,694
Brought into use	9,245	4,409	2,762	(16,416)	-
Amounts written-off	(86)	-	-	-	(86)
Balance at 31 December 2011	**204,164**	**70,720**	**54,086**	**31,097**	**360,067**
Accumulated amortisation					
Balance at 1 January 2011	**(39,374)**	**(50,639)**	**(30,698)**	**-**	**(120,711)**
Charge for the year	(20,366)	(9,628)	(5,684)	-	(35,678)
Amounts written-off	86	-	-	-	86
Balance at 31 December 2011	**(59,654)**	**(60,267)**	**(36,382)**	**-**	**(156,303)**
Net book value					
Balance at 1 January 2011	155,631	15,672	20,626	32,819	224,748
Balance at 31 December 2011	**144,510**	**10,453**	**17,704**	**31,097**	**203,764**

As at 31 December 2012 assets in the course of construction comprise application software, licences and leasehold improvements at a cost of HRK 19,081 thousand (2011: HRK 31,097 thousand) which are being prepared for use by the Bank.

17. NET DEFERRED TAX ASSETS

a) Recognised deferred tax assets and liabilities - Group

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2012 are presented below:

Group **2012**	**2012 HRK 000**	**Recognised as income/(expense) in the income statement HRK 000**	**Credited to equity HRK 000**	**2011 HRK 000**
Deferred tax assets				
Loans and advances to customers	12,355	(276)	-	12,631
Other provisions	1,122	2	-	1,120
Financial assets	21,912	723	-	21,189
Fair value reserve	(248)	-	(4,824)	4,576
Deferred tax liability				
Borrowings	(796)	(15)	-	(781)
Revaluation reserve	(311)	-	23	(334)
Fair value reserve	(11,450)	-	(11,450)	-
Prepaid expenses	(709)	-	-	(709)
Deferred tax assets, net	**21,875**	**434**	**(16,251)**	**37,692**

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2011 are presented below:

Group **2011**	**2011 HRK 000**	**Recognised as income/(expense) in the income statement HRK 000**	**Credited/(charged) to equity HRK 000**	**2010 HRK 000**
Deferred tax assets				
Loans and advances to customers	12,631	1,209	-	11,422
Other provisions	1,120	(45)	-	1,165
Financial assets	21,189	4,538	-	16,651
Fair value reserve	4,576	-	4,296	280
Deferred tax liability				
Borrowings	(781)	(103)	-	(678)
Revaluation reserve	(334)	-	880	(1,214)
Fair value reserve	-	-	829	(829)
Prepaid expenses	(709)	-	-	(709)
Deferred tax assets, net	**37,692**	**5,599**	**6,005**	**26,088**

17. NET DEFERRED TAX ASSETS (continued)

b) Recognised deferred tax assets and liabilities - the Bank

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2012 are presented below:

Bank 2012	2012 HRK 000	Recognised as income/(expense) in the income statement HRK 000	Credited to equity HRK 000	2011 HRK 000
Deferred tax assets				
Loans and advances to customers	11,034	(370)	-	11,404
Other provisions	1,118	1	-	1,117
Financial assets	21,912	723	-	21,189
Fair value reserve	-	-	(3,941)	3,941
Deferred tax liability				
Borrowings	(1,062)	(53)	-	(1,009)
Revaluation reserve	(311)	-	23	(334)
Fair value reserve	(11,450)	-	(11,450)	-
Deferred tax assets, net	**21,241**	**301**	**(15,368)**	**36,308**

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2011 are presented below:

Bank 2011	2011 HRK 000	Recognised as income/(expense) in the income statement HRK 000	Credited/(charged) to equity HRK 000	2010 HRK 000
Deferred tax assets				
Loans and advances to customers	11,404	1,174	-	10,230
Other provisions	1,117	(1)	-	1,126
Financial assets	21,189	4,538	-	16,651
Fair value reserve	3,941	-	3,941	-
Deferred tax liability				
Borrowings	(1,009)	(183)	-	(826)
Revaluation reserve	(334)	-	880	(1,214)
Fair value reserve	-	-	829	(829)
Deferred tax assets, net	**36,308**	**5,528**	**5,650**	**25,130**

18. OTHER ASSETS

	Group		Bank	
	2012 HRK 000	**2011 HRK 000**	**2012 HRK 000**	**2011 HRK 000**
Fees receivable	64,567	41,707	63,691	41,183
Foreclosed tangible assets	177,596	132,279	177,596	132,279
Items in course of collection	20,733	94,427	20,733	94,427
Deferred fee expense	579	2,777	579	791
Prepaid expenses	11,820	9,583	11,777	9,381
Receivables arising from syndicated loans	65,921	46,905	65,921	46,905
Other receivables	46,657	43,669	23,022	24,868
Total other assets, gross	**387,873**	**371,347**	**363,589**	**349,835**
Impairment loss	(41,438)	(39,737)	(41,416)	(39,724)
Total	**346,435**	**331,610**	**322,173**	**310,111**

Items in course of collection mainly relate to HRK and foreign currency receivables from corporations in course of settlement, amounting to HRK 13,385 thousand (2011: 19,845 thousand), as well as other receivables in course of settlement (card operations, payment services, currency trade).

At 31 December 2012 the gross carrying amount of foreclosed assets by the Bank amounted to HRK 177,596 thousand (2010: HRK 132,279 thousand). Those assets comprise buildings in the amount of HRK 114,986 thousand, land in the amount of HRK 30,846 thousand and equipment in the amount of HRK 8,029 thousand. Bank has determined that carrying value of these assets does not differ from fair market value as per December 31 2012, whilst in 2011 impairment losses of HRK 5.275 thousand were recognized due to fair value adjustments.

Movements in foreclosed tangible assets

The following table represents movements in foreclosed assets during 2012:

Group and Bank

Gross carrying value	**'000 kn**
Balance as at January 1	**132,279**
Foreclosed in 2012	46,660
Leased out in 2012	(1,343)
Balance as at December 31	**177,596**
Impairment losses	
Balance as at January 1	**(28,096)**
Leased out in 2012	44
Balance as at December 31	**(28,052)**
Net carrying value	
Balance as at January 1	**104,183**
Balance as at December 31	**149,544**

Movements in impairment allowance

Movements in the impairment allowance on other assets were as follows:

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Balance at 1 January	39,737	29,453	39,724	29,427
Increase in impairment losses	3,741	11,426	3,742	11,371
Amounts reversed (utilised)	(2,040)	(1,142)	(2,050)	(1,074)
Balance at 31 December	**41,438**	**39,737**	**41,416**	**39,724**

19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Negative fair value of forward foreign exchange contracts	237	1,758	237	1,758
Negative fair value of cross currency swaps	133	822	133	822
Balance at 31 December	**370**	**2,580**	**370**	**2,580**

20. DEPOSITS FROM BANKS

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Demand deposits				
- in HRK	3,356	2,813	3,356	2,813
- in foreign currency	9,733	18,540	9,733	18,540
Term deposits				
- in HRK	317,567	23,000	317,567	23,000
- in foreign currency	175,369	19,170	175,369	19,170
Interest payable not yet due	-	-	-	-
Interest payable - due	3,493	70	3,493	70
Total	**509,518**	**63,593**	**509,518**	**63,593**

21. DEPOSITS FROM CUSTOMERS

Group	2012			2011		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Demand deposits						
Retail	1,939,788	307,936	2,247,724	1,885,106	245,136	2,130,242
Corporate	1,325,196	133,104	1,458,300	1,405,270	107,642	1,512,912
Restricted deposits						
Retail	5,859	450	6,309	6,010	10	6,020
Corporate	1,120,426	41,867	1,162,293	1,217,994	70,109	1,288,103
	4,391,269	**483,357**	**4,874,626**	**4,514,380**	**422,897**	**4,937,277**
Term deposits						
Retail	2,144,505	3,588,873	5,733,378	2,068,471	3,428,621	5,497,092
Corporate	1,706,027	729,400	2,435,427	1,316,841	1,096,281	2,413,122
	3,850,532	**4,318,273**	**8,168,805**	**3,385,312**	**4,524,902**	**7,910,214**
Interest payable - due	1	-	1	1	-	1
Interest payable - not yet due	32,854	48,572	81,426	32,022	44,541	76,563
Total	**8,274,656**	**4,850,202**	**13,124,858**	**7,931,715**	**4,992,340**	**12,924,055**

Bank	2012			2011		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Demand deposits						
Retail	1,939,788	307,936	2,247,724	1,885,106	245,136	2,130,242
Corporate	1,327,256	133,104	1,460,360	1,407,525	107,642	1,515,167
Restricted deposits						
Retail	5,859	450	6,309	6,010	10	6,020
Corporate	1,120,426	41,867	1,162,293	1,217,994	70,109	1,288,103
	4,393,329	**483,357**	**4,876,686**	**4,516,635**	**422,897**	**4,939,532**
Term deposits						
Retail	1,879,748	3,588,873	5,468,621	1,833,348	3,428,621	5,261,969
Corporate	1,782,691	729,400	2,512,091	1,327,769	1,096,281	2,424,050
	3,662,439	**4,318,273**	**7,980,712**	**3,161,117**	**4,524,902**	**7,686,019**
Interest payable - due	1	-	1	1	-	1
Interest payable - not yet due	33,432	48,572	82,004	32,071	44,541	76,612
Total	**8,089,201**	**4,850,202**	**12,939,403**	**7,709,824**	**4,992,340**	**12,702,164**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.

22. BORROWINGS

Group	2012			2011		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Short-term loans from other financial institutions	-	44,951	44,951	63,000	1,506	64,506
Short-term loans from domestic banks	23,333	-	23,333	3,000	-	3,000
Long-term bank borrowings	-	79,895	79,895	-	106,312	106,312
Long-term borrowing from HBOR	973,825	-	973,825	1,063,372	-	1,063,372
Accrued interest due	508	-	508	475	-	475
Accrued interest not yet due	810	788	1,598	2,288	955	3,243
Total	**998,476**	**125,634**	**1,124,110**	**1,132,135**	**108,773**	**1,240,908**

Bank	2012			2011		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Short-term loans from other financial institutions	-	44,951	44,951	63,000	1,506	64,506
Short-term loans from domestic banks	23,333	-	23,333	3,000	-	3,000
Long-term bank borrowings	-	79,895	79,895	-	106,312	106,312
Long-term borrowing from HBOR	973,825	-	973,825	1,063,372	-	1,063,372
Accrued interest due	508	-	508	475	-	475
Accrued interest not yet due	810	788	1,598	2,288	955	3,243
Total	**998,476**	**125,634**	**1,124,110**	**1,132,135**	**108,773**	**1,240,908**

In accordance with their terms, borrowings from the Croatian Bank for Reconstruction and Development ("HBOR") are used to fund loans to customers of the Bank for financing eligible reconstruction and development projects at preferential interest rates.

23. HYBRID INSTRUMENTS

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Hybrid instruments	401,743	601,638	401,743	601,638
Accrued interest not yet due	8,405	8,910	8,405	8,910
Balance at 31 December	**410,148**	**610,548**	**410,148**	**610,548**

Hybrid instruments are included in Group’s supplementary capital, and are without limitations available for payoff to creditors should a liquidation occur. Repayment of these instruments is subordinated to all other liabilities of the Group.

Hybrid instruments bear fixed interest rate, and have a contracted maturity period of 61 months.

Group's hybrid instruments amounting to HRK 150,000 will expire during 2014, whilst other HRK 252,000 thousand are to expire in 2015.

24. PROVISIONS FOR LIABILITIES AND EXPENSES

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Litigation provisions	15,570	8,852	14,519	8,852
Provisions for other liabilities	987	2,149	987	2,149
Provisions for off-balance-sheet exposures	41,039	22,325	41,016	22,303
Other provisions	-	360	-	360
Balance at 31 December	**57,596**	**33,686**	**56,522**	**33,664**

Movements in provisions for liabilities and expenses

The movements in provisions for liabilities and expenses were as follows:

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Balance at 1 January	33,687	36,182	33,664	36,164
Increase/(decrease) in provisions in the income statement	24,268	(1,796)	23,217	(1,801)
Amounts utilised	(359)	(699)	(359)	(699)
Balance at 31 December	**57,596**	**33,687**	**56,522**	**33,664**

25. OTHER LIABILITIES

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Trade accounts payable	26,832	37,793	26,419	36,997
Salaries, amounts to be withheld from salaries, taxes and contributions	16,127	16,756	15,156	15,890
Provisions for retirement benefits, termination benefits and similar liabilities	10,980	20,672	10,980	20,672
Fees payable	40,892	16,517	40,779	16,377
Items in course of settlement	348,861	331,332	348,861	330,663
Deferred fee income	84,179	70,431	73,727	61,104
Other liabilities	101,100	80,181	78,475	61,262
Balance at 31 December	**628,971**	**573,682**	**594,397**	**542,965**

Items in the course of settlement mainly relate to liabilities for repayment of pensions on behalf of the Croatian Pension Fund in the amount of HRK 283 million (2011: HRK 242 million) and liabilities for transfer of cash inflows from the Bank’s account to customers who do not hold accounts with the Bank in the amount of HRK 28 million (2011: HRK 28 million).

26. EQUITY

a) Share capital

At 31 December 2012, the Company's authorized, subscribed and fully paid-in capital amounted to HRK 966,640 thousand (2011: HRK 966,640 thousand) and comprised 878,764 (2011: HRK 878,764 thousand) of authorized ordinary shares with a nominal value of HRK 1,100 each. At 31 December 2012 the Bank held 795 treasury shares (2011: 795) in the total amount of HRK 874 thousand (2011: HRK 874 thousand).

The ownership structure is as follows:

	2012		2011	
	Paid-in capital HRK 000	Ownership in %	Paid-in capital HRK 000	Ownership in %
Republic of Croatia (Agency for State Property Management)	497,443	51.46%	497,443	51.46%
Hrvatska pošta d.d.	265,771	27.49%	265,771	27.49%
Croatian State Pension Insurance Fund	195,042	20.18%	195,042	20.18%
Others	8,384	0.87%	8,384	0.87%
Total	**966,640**	**100.00%**	**966,640**	**100.00%**

26. EQUITY (continued)

b) Capital gain

Capital gain is the excess amount paid with respect to nominal value of shares at the issue of new shares. At the end of 2011 the Bank had realized capital gains amounting to HRK 228,136 thousand (2011: HRK 228,136 thousand).

c) Statutory reserve

The Bank is required to build legal reserves by appropriating 5% of net profit for the year until these reserves reach 5% of share capital. The balance of legal reserve at 31 December 2012 amounted to HRK 3,755 thousand (2011: nil), or 0.4% (2011: nil) of the share capital. The Management Board will propose to General Assembly to be held in 2013 legal reserve allocation from profits realized in 2012.

d Fair value reserve

The fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets available for sale, net of tax.

e) Revaluation reserve

A revaluation reserve in the amount of HRK 1,244 thousand (2011: HRK 1,290 thousand), net of tax, arises from the revaluation of land and buildings of the Group.

f) Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of Shareholders. The Management Board will not propose any dividend payment for the year ended 31 December 2012 (2011: nil).

f) Other reserves

Other reserves as at December 31 2012 amounted to HRK 0 thousand (2011: HRK 0).

g) Retained earnings or accumulated losses

The Management Board will propose to General Assembly to be held in 2013, that profit realized in 2012 (after abstraction of legal reserve).should be transferredto retained earnings within the equity reserves.

27. INTEREST AND SIMILAR INCOME

a) Analysis by product:

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Loans and advances to customers				
- Corporate	455,097	455,378	455,704	456,070
- Individuals	288,286	278,859	283,946	274,063
	743,383	**734,237**	**739,650**	**730,133**
Loans and advances to customers	9,800	12,754	9,107	12,358
Debt securities	123,163	108,643	115,361	100,799
Bills of exchange	19,118	20,975	19,118	20,975
Obligatory reserve with Croatian National Bank	-	842	-	842
Total	**895,464**	**877,451**	**883,236**	**865,107**

b) Analysis by source:

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Corporate	326,932	402,849	327,539	403,541
Retail	288,286	278,859	283,946	274,063
Government and public sector	260,383	168,160	252,581	160,316
Banks and other financial institutions	15,863	24,663	15,170	24,268
Other organisations	4,000	2,920	4,000	2,919
Total	**895,464**	**877,451**	**883,236**	**865,107**

28. INTEREST AND SIMILAR EXPENSE

a) Analysis by product:

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Borrowings	33.314	37,004	33,314	37,004
Customer deposits				
- Corporate	163,135	145,336	164,547	145,413
- Retail	207,876	197,470	200,664	191,388
	371,011	**342,806**	**365,211**	**336,801**
Deposits from banks	9,739	4,009	9,739	4,009
Other	1,706	1,303	1,706	1,302
Total	**415,770**	**385,122**	**409,970**	**379,116**

b) Analysis by recipient:

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Corporate	44,737	46,104	46,149	46,181
Retail	207,876	197,470	200,664	191,388
Government and public sector	61,821	52,185	61,821	52,185
Banks and other financial institutions	91,271	80,506	91,271	80,506
Others	10,065	8,857	10,065	8,856
Total	**415,770**	**385,122**	**409,970**	**379,116**

29. FEE AND COMMISSION INCOME

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Cash payment operations	365,131	390,227	365,131	390,227
Non-cash payment operations	43,989	42,366	43,989	42,366
Retail and credit card operations	103,678	107,342	98,576	105,434
Letters of credit, guarantees and foreign-exchange payment operations	12,549	9,736	12,549	9,736
Other fee and commission income	29,497	36,255	18,962	22,834
Total	**554,844**	**585,926**	**539,207**	**570,597**

30. FEE AND COMMISSION EXPENSE

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Cash payment operations	317,959	330,672	317,959	330,672
Non-cash payment operations	18,499	26,107	18,499	26,107
Card operations	25,520	25,442	25,520	25,442
Other fee and commission income	8,772	9,204	7,026	7,827
Total	**370,750**	**391,425**	**369,004**	**390,048**

31. GAINS LESS LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2012 HRK 000	**2011 HRK 000**	**2012 HRK 000**	**2011 HRK 000**
Net unrealised losses / (gains) on financial assets at fair value through profit or loss				
Realised gains/(losses)				
-Debt securities	5,138	778	4,683	862
- Equity securities	-	-	-	-
- Investment funds	3,122	3,282	3,122	3,254
- Forward contracts, OTC	4,219	1,045	4,219	1,045
	12,479	**5,105**	**12,024**	**5,161**
Unrealised gains/(losses)				
-Debt securities	12,292	(19,652)	4,191	(15,178)
- Investment funds	(2,385)	(2,190)	(2,385)	(2,380)
- Equity securities	(6,912)	(3,894)	(6,912)	(3,894)
- Futures	-	-	-	-
- Forward contracts, OTC	43	(456)	43	(456)
	3,038	**(26,192)**	**(5,063)**	**(21,908)**
Total	**15,517**	**(21,087)**	**6,961**	**(16,747)**

32. GAINS LESS LOSSES FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2012 HRK 000	**2011 HRK 000**	**2012 HRK 000**	**2011 HRK 000**
Realised gains on disposal of debt securities available for sale	4,225	1,240	4,224	558
Realised gains on disposal of equity securities available for sale	-	304	-	304
Impairment of equities				-
Total	**4,225**	**1,544**	**4,224**	**862**

33. OTHER OPERATING INCOME

	Group		Bank	
	2012 HRK 000	**2011 HRK 000**	**2012 HRK 000**	**2011 HRK 000**
Dividend income	3,067	4,333	3,067	4,333
Net foreign exchange gain from translation of monetary assets and liabilities	3,637	6,054	3,639	6,216
Income on dormant customer accounts	44	97	44	97
Other income	29,015	12,921	31,527	14,101
Total	**35,763**	**23,405**	**38,277**	**24,747**

34. GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Materials and services	141,062	147,491	139,242	143,381
Administration and marketing	18,093	19,446	17,256	18,815
Postage and telecommunications	34,200	36,810	33,998	36,643
Staff costs	190,574	208,833	179,655	196,564
Savings deposit insurance costs	22,334	20,586	21,544	19,905
Other general and administrative expenses	16,381	20,730	14,821	21,479
Total	**422,644**	**453,896**	**406,516**	**436,787**

a) Staff costs

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Net salaries, termination and other employee benefit costs	89,311	99,107	84,641	93,174
Taxes and contributions (including contributions payable by employers)	90,942	100,563	85,910	95,501
Other fees to employees	9,159	8,071	8,829	7,645
Fees to Supervisory Board Members	1,162	1,092	275	243
Total	**190,574**	**208,833**	**179,655**	**196,563**

As at 31 December 2012, Bank had 1118 employees (2011: 1071), and 1155 persons were employed in the Group (2011: 1109).

35. IMPAIRMENT LOSSES ON LOANS TO AND RECEIVABLES FROM CUSTOMERS AND OTHER ASSETS

		Group		Bank	
	Notes	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Individually identified impairment losses					
Loans and receivables from customers	11	(132,919)	(119,229)	(132,868)	(119,261)
Interest receivable		2,705	(7,750)	2,709	(7,759)
Financial assets available for sale	9	(10,366)	16,248	(10,366)	16,248
Financial assets held to maturity	10	(1,152)	(1,376)	(1,152)	(1,376)
Other assets	18	(3,741)	(11,426)	(3,741)	(11,371)
Gains from recovery of placements written-off in previous years		2,002	-	2,002	-
Total reversal/(charge)		**(143,471)**	**123,533**	**(143,416)**	**(123,519)**
Portfolio based provisions					
for identified losses					
Loans and receivables from customers	11	(6,105)	(7,489)	(5,620)	(7,365)
Financial assets held to maturity	10	281	(978)	281	(1,445)
Other assets	18	-	-	-	-
Loans to and receivables from banks	7	-	-	-	-
Total reversal/(charge)		**(5,824)**	**(8,467)**	**(5,339)**	**(8,810)**
Total portfoliobased and individually identified losses					
Loans and receivables from customers	11	(139,024)	(126,718)	(138,488)	(126,627)
Interest receivable		2,705	(7,750)	2,709	(7,758)
Financial assets available for sale	9	(10,366)	16,248	(10,366)	16,248
Financial assets held to maturity	10	(871)	(2,354)	(871)	(2,821)
Other assets	18	(3,741)	(11,426)	(3,741)	(11,371)
Loans to and receivables from banks	7	-	-		-
Gains from recovery of placements written-off in previous years		2,002		2,002	
Total reversal/(charge)		**(149,295)**	**132,000**	**(148,755)**	**(132,329)**

36. INCOME TAX

Total recognized income tax expense, calculated at the income tax rate of 20%, comprises income tax expense recognized in the income statement and movements in deferred tax recognized in equity, as follows:

Income tax expense recognised in the income statement

	Group		Bank	
	2012 HRK 000	**2011 HRK 000**	**2012 HRK 000**	**2011 HRK 000**
Current tax	(135)	(233)	-	-
Deferred tax income/(expense) in respect of origination and reversal of temporary differences	434	5,559	301	5,528
Total current tax recognised in the income statement	**299**	**5,366**	**301**	**5,528**

Movements in the income tax recognized directly in equity

	Group		Bank	
	2012 HRK 000	**2011 HRK 000**	**2012 HRK 000**	**2011 HRK 000**
Deferred tax income in respect of unrealisedlosses on available-for-sale assets not recognised in the fair valuation reserve	(16,274)	5,125	(15,391)	4,770
Deferred tax income/(expense) in respect of revaluation of property	23	880	23	880
Total tax income/(expense) recognized directly in equity	**(16,251)**	**6,005**	**(15,368)**	**5,650**

Reconciliation of income tax expense

The reconciliation between income tax expense and profit before tax is shown as follows:

	Group		Bank	
	2012 HRK 000	**2011 HRK 000**	**2012 HRK 000**	**2011 HRK 000**
Profit/(loss) before taxation	101,901	80,389	93,762	82,396
Income tax at the rate of 20% (2011: 20%)	(20,380)	(16,078)	(18,752)	(16,479)
Tax non-deductible expenses	(10,072)	(10,660)	(9,714)	(10,506)
Non-taxable income	9,721	5,247	9,718	5,237
Deferred tax income		(11)	-	-
Effect of unrecognised deferred tax	21,029	26,868	19,049	27,276
	299	**5,366**	**301**	**5,528**
Effective income tax rate	0%	0%	0%	0%

36 INCOME TAX (continued)

Unrecognized deferred tax in respect of tax losses disposable in prospective periods

At 31 December 2012 the Bank held 212,314 thousand (2011: HRK 307,559 thousand) accumulated tax losses available for utilisation until 31 December 2014. Deferred tax assets with respect to tax losses carried forward were not recognized as deferred tax assets, because the amount of future taxable profits against which the losses could be utilized, can not be determined.

By achieving net profit during 2012, a subsidiary of the Bank has fully exploited its accumulated gross tax losses, and thereby does not have any accumulated tax losses to be carried forward and used in future periods (2011: 2.874).

37. EARNINGS PER SHARE

For the purposes of determining earnings per share, earnings represent the Bank's net profit for the year attributable to the equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used in determining the basic earnings per shares was 877,969 (2011: 877,696). As there is no impact of any options, convertible bonds or similar effects, the weighted average number of ordinary shares used in determining diluted earnings per share would be equal as the one used in determining basic earnings per share i.e. 877,969 (2011: 877,969).

	Bank	
	2012 HRK 000	**2011 HRK 000**
Net profit /(loss) for the year	94,063	87,924
Profit allocated to cover losses from previous years	4,063	87,924
Average number of ordinary shares in issue (excluding treasury shares)	877,969	877,969
Earnings per share (in HRK):	**107.14**	**100.14**

38. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

		Group		Bank	
	Notes	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Giro account with the CNB	5	530,056	497,869	530,056	497,869
Obligatory reserve with Croatian National Bank	6	1,231,884	1,246,649	1,231,884	1,246,649
Bonds of the Republic of Croatia		1,427,781	1,393,957	1,287,323	1,393,957
Treasury bills of the Croatian Ministry of Finance		369,097	593,064	367,060	588,096
Loans and advances to the Republic of Croatia		2,257,819	994,789	2,257,819	994,789
Deposits from the Republic of Croatia		(1,718,182)	(1,601,839)	(1,718,182)	(1,601,839)
Total		**4,098,455**	**3,124,489**	**3,955,960**	**3,119,521**

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group		Bank	
	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Loans	407,554	175,189	407,554	175,189
Deposits	(337,523)	(705,014)	(337,523)	(705,014)
Total	**70,031**	**(529,825)**	**70,031**	**(529,825)**

39. CASH AND CASH EQUIVALENTS

		Group		Bank	
	Notes	2012 HRK 000	2011 HRK 000	2012 HRK 000	2011 HRK 000
Cash and amounts due from banks	5	1,130,569	1,090,199	1,129,940	1,090,183
Obligatory reserve with Croatian National Bank	6	1,231,884	1,246,649	1,231,884	1,246,649
Deposits with banks with original maturities of up to 90 days		396,248	1,088,006	391,494	1,074,816
Items in course of collection	18	20,733	94,427	20,733	94,427
Total		**2,779,434**	**3,519,281**	**2,774,051**	**3,506,075**

40. CONTINGENT LIABILITIES

	Group 2012 HRK 000	Group 2011 HRK 000	Bank 2012 HRK 000	Bank 2011 HRK 000
Guarantees denominated in HRK	368,427	486,204	368,427	486,204
Guarantees denominated in foreign currency	10,713	70,414	10,713	70,414
Letters of credit	73,715	85,860	73,715	85,860
Undrawn lending commitments	1,600,958	1,587,027	1,598,789	1,584,969
Total	**2,053,813**	**2,229,505**	**2,051,644**	**2,227,447**

At 31 December 2011, the Group and the Bank recognized portfolio-based provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credit and undrawn lending commitments, the Group in the amount of HRK 20,268 thousand, (2011: HRK 22,325 thousand), and the Bank in the amount of HRK 20,245 thousand (2011: HRK 22,303 thousand) thousand which are included in Provisions for liabilities and expenses (see Note 24).

41. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Group had the following derivative contracts, accounted for as trading instruments, open at year-end.

Group and Bank	**Notional amount, remaining life**					**Fair value**	
2012	**Up to 3 months HRK 000**	**3 to 12 months HRK 000**	**1 to 5 years HRK 000**	**Over 5 years HRK 000**	**Total HRK 000**	**Assets HRK 000**	**Liabilities HRK 000**
Forward foreign exchange contracts - OTC	150,409	-	-	-	150,409	395	237
Cross currency swap contracts - OTC	111,167	-	-	-	111,167	411	133
Futures	-	-	-	-	-	-	-
	261,575	**-**	**-**	**-**	**261,575**	**806**	**370**

Group and Bank	**Notional amount, remaining life**					**Fair value**	
2011	**Up to 3 months HRK 000**	**3 to 12 months HRK 000**	**1 to 5 years HRK 000**	**Over 5 years HRK 000**	**Total HRK 000**	**Assets HRK 000**	**Liabilities HRK 000**
Forward foreign exchange contracts - OTC	163,916	-	-	-	163,916	2,128	1,758
Cross currency swap contracts - OTC	318,649	37,950	-	-	356,599	845	822
Futures	-	-	-	-	-	-	-
	482,565	**37,950**	**-**	**-**	**520,515**	**2,973**	**2,580**

42. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska poštanska banka Group. Key shareholders of the Bank and of the Group are the Republic of Croatia, Hrvatska pošta d.d. ("HP") and the Croatian Pension Insurance Fund (“HZMO”) which together own 99.13% (2011: 99.13%) of the Bank's shares. The remaining 0.87 percent (2011: 0.87%) are publicly traded. The Bank considers that it has an immediate related party relationship with its key shareholders, its subsidiaries andthe Supervisory and Management Board members and other executive management (together “key management personnel”), and entities controlled, jointly controlled or significantly influenced by members of the Management Board, in accordance with the definitions contained in IAS 24 “Related Party Disclosures” (“IAS 24”).

a) Key transactions with immediate related parties

Hrvatska pošta d.d. ("HP") performs domestic payment transactions for and on behalf of the Bank. Exposure to Hrvatska pošta d.d. mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank, as well as placements in debt securities issued by Hrvatska pošta d.d. Liabilities towards Hrvatska pošta d.d. mainly relate to demand and term deposits. Expenses include commission expense for services provided and interest expense payable on its deposits with the Bank. Exposure to Republic of Croatia is disclosed in Note 38 Concentrations of assets and liabilities.

The exposure to HPB Invest mainly consists of investment into share capital. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB Nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management personnel held no ordinary shares at the year-end (2011: -).

42 RELATED-PARTY TRANSACTIONS (continued)

b) Balances arising from related party transactions

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the years ended 31 December 2012 and 31 December 2011 of the Group, arising from transactions with related parties were as follows:

Group 2012	**Exposure* HRK 000**	**Liabilities HRK 000**	**Income HRK 000**	**Expenses HRK 000**
Key shareholders				
Hrvatska pošta d.d.	89,597	137,696	374,774	358,784
HZMO	39,569	38	-	1
Republic of Croatia	-	-	-	-
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	1,103	4,875	35	15,508
Long-term benefits (loans and deposits)	22,015	581	816	61
Severance payments	-	-	-	-
Companies under significant influence	82,283	2,915	7,574	4,678
Total	**234,567**	**146,105**	**383,199**	**379,032**

Group 2011	**Exposure* HRK 000**	**Liabilities HRK 000**	**Income HRK 000**	**Expenses HRK 000**
Key shareholders				
Hrvatska pošta d.d.	85,897	107,744	382,622	320,800
HZMO	11,606	30	9	-
Republic of Croatia	-	-	1,912	9
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	1,141	3,202	31	17,491
Long-term benefits (loans and deposits)	24,145	639	978	469
Severance payments	-	-	-	413
Companies under significant influence	131,610	1,475	1,922	9
Total	**254,399**	**113,090**	**387,474**	**339,191**

*****Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 7,222 thousand (2011: HRK 61,625 thousand) of off-balance-sheet exposure, whereof HRK 7,222 thousand (2011: HRK 59,421 thousand) relates to Hrvatska pošta d.d. and key management personnel.

Exposure to key members of the Group's Management include loan receivables in the amount of 21,063 thousand (2011: HRK 25,286 thousand).

42 RELATED-PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with immediate related parties

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the years ended 31 December 2012 and 31 December 2011 of the Bank, arising from transactions with related parties were as follows:

Bank 2012	**Exposure* HRK 000**	**Liabilities HRK 000**	**Income HRK 000**	**Expenses HRK 000**
Key shareholders				
Hrvatska pošta d.d.	89,597	137,696	374,774	358,673
HZMO	39,569	38	-	1
Republic of Croatia	-	-	-	-
Subsidiaries				
HPB Invest d.o.o.	13,688	13,314	621	2
HPB Nekretnine d.o.o.	8,961	67	2,250	1,686
HPB Stambena štedionica d.d.	40,097	66,051	1,079	1,423
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	913	4,421	26	12,660
Long-term benefits (loans and deposits)	17,567	581	660	51
Severance payments	-	-	-	-
Companies under significant influence	82,283	2,915	7,574	4,678
Total	**292,675**	**225,083**	**386,984**	**379,174**

Bank 2011	**Exposure* HRK 000**	**Liabilities HRK 000**	**Income HRK 000**	**Expenses HRK 000**
Key shareholders				
Hrvatska pošta d.d.	85,897	107,744	382,622	320,800
HZMO	11,606	30	9	-
Republic of Croatia	-	-	1,912	9
Subsidiaries				
HPB Invest d.o.o.	13,569	183	707	3
HPB Nekretnine d.o.o.	9,635	724	14,860	5
HPB Stambena štedionica d.d.	40,024	12,370	4	6
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	970	3,138	25	13,150
Long-term benefits (loans and deposits)	18,456	639	783	54
Severance payments	-	-		197
Companies under significant influence	131,610	1,475	1,922	9
Total	**311,767**	**126,303**	**402,844**	**334,233**

*Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 7,435 thousand (2011: HRK 59,580 thousand) of off-balance-sheet exposure, whereof HRK 6,892 thousand (2011: HRK 58,994 thousand) relates to Hrvatska pošta d.d. and key management personnel.

c) State owned companies

Major shareholders of the Bank, which together own 99.13% of its shares, are state agencies or state owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has a significant exposure to these parties, which is disclosed in Note 38.

43. REPURCHASE AND RESALE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognised and the proceeds are accounted for as interest bearing borrowings. At the end of the year assets sold under repurchase agreements were as follows:

	Fair value of securities HRK 000	Carrying amount of corresponding liabilities HRK 000	Repurchase date	Repurchase price HRK 000
Debt securities at fair value through profit or loss - repurchase agreements				
2012	45,234	45,867	April to December 2013	45,581
2011	64,174	64,873	February to December 2012	64,716

Related transactions, according to IAS 39 *Financial instruments Recognition and Measurement* are recognized as repurchase agreements.

The Bank also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers and are accounted for as loans and advances to customers; the underlying financial instruments are not recognised. At 31 December 2012 the Bank assets did not have reverse repurchase agreements.

	Carrying amount of receivables HRK 000	Fair value of collateral HRK 000	Repurchase date	Repurchase price HRK 000
Loans to customers - reverse repo agreements				
2012	-	-	-	-
2011	5,166	7,451	January 2012	7,452

44. FUNDS MANAGED FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Bank provides trust and custody services to companies, banks, individuals, and investment funds (Group's investment funds) whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognized in the Bank's balance sheet. The Bank is not exposed to any credit risk relating to such placements, nor does it guarantee for investments.

At 31 December 2012, the total assets under custody held by the Bank on behalf of customers, including the funds within the HPB Group, amounted to HRK 3.52 billion (2011: HRK 3.16 billion).

In addition, at 31 December 2012, total assets of investment and pension funds to which the Bank act as a depository bank, amounted to HRK 3.23 billion (2010: HRK 2.81 billion).

Furthermore, the Bank manages loan exposures of other parties as follows:

	2012 HRK 000	2011 HRK 000
Assets		
Corporate	209,996	230,706
Retail	643,041	639,757
Giro accounts	174,102	121,155
Total assets	**1,027,140**	**991,619**
Liabilities		
Croatian Employment Office	82,552	91,186
Counties	19,096	20,817
Government of the Republic of Croatia	772,214	715,316
HBOR	9,014	9,388
Development and Employment Fund	141,293	146,861
Other liabilities	2,970	8,052
Total liabilities	**1,027,140**	**991,619**

45. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group	Average interest rates 2012	Average interest rates 2011
Assets		
Cash and amounts due from banks	0.25%	0.27%
Obligatory reserve with Croatian National Bank	-	0.06%
Loans to and receivables from banks	1.10%	0.95%
Financial assets at fair value through profit or loss	4.34%	4.47%
Financial assets available for sale	5.88%	5.85%
Financial assets held to maturity	7.63%	7.59%
Loans and receivables from customers	7.39%	7.84%
Liabilities		
Deposits from banks	3.42%	3.21%
Customer deposits	2.60%	2.51%
Borrowings	2.88%	2.93%
Hybrid instruments	7.18%	6.92%

Bank	Average interest rates 2012	Average interest rates 2011
Assets		
Cash and amounts due from banks	0.25%	0.27%
Obligatory reserve with Croatian National Bank	-	0.08%
Loans to and receivables from banks	1.07%	0.93%
Financial assets at fair value through profit or loss	3.82%	4.46%
Financial assets available for sale	5.89%	5.92%
Financial assets held to maturity	7.63%	7.59%
Loans and receivables from customers	7.41%	7.86%
Liabilities		
Deposits from banks	3.42%	3.21%
Customer deposits	2.60%	2.50%
Borrowings	2.88%	2.93%
Hybrid instruments	7.18%	6.92%

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction.

Financial instruments at fair value through profit or loss or available-for-sale financial assets are measured at fair value. Loans and receivables, and held-to-maturity investments are measured at amortised cost less impairments. Financial assets at fair value through profit or loss and financial assets available for sale are disclosed at their fair value that arises from price quotes of these instruments on active markets. Financial liabilities at fair value through profit or loss are disclosed at fair values calculated on the basis of available conditions of these instruments.

Set out below is an overview of key methods and assumptions used in estimating the fair values of financial instruments.

Loans

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio based provisions for performing (i.e. A-risk rated) loans calculated at rates prescribed by the CNB. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The Group has a limited portfolio of loans with fixed rates, where there is a difference between the fair value and the carrying amount.

Investments carried at cost

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where discounted cash flow techniques provide insufficiently reliable valuations due to a number of uncertainties related to estimations of future cash flows, investments are carried at cost less impairment.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Borrowings

Most of the Group's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Group for new debt of similar type and remaining maturity.

The following table represents the Group's and the Bank's estimate of the fair value of financial instruments as of 31 December 2012 and 31 December 2011:

Group			**2012 HRK 000**			**2011 HRK 000**
	Carrying amount	**Fair value**	**Unrecognised gains/(losses)**	**Carrying amount**	**Fair value**	**Unrecognised gains/(losses)**
Cash and amounts due from banks	1,130,569	1,130,569	-	1,090,199	1,090,199	-
Obligatory reserve with Croatian National Bank	1,231,884	1,231,884	-	1,246,649	1,246,649	-
Loans to and receivables from banks	754,612	752,372	(2,240)	1,307,638	1,306,724	(914)
Financial assets at fair value through profit or loss	581,219	581,219	-	434,138	434,138	-
Financial assets available for sale	1,371,044	1,371,044	-	1,461,485	1,461,485	-
Financial assets held to maturity	685,417	594,001	(91,416)	687,072	579,916	(107,156)
Loans and receivables from customers	10,769,490	10,707,350	(62,140)	9,708,603	9,688,230	(20,373)
Financial liabilities at fair value through profit or loss	370	370	-	2,580	2,580	-
Deposits from banks	509,518	506,097	3,421	63,593	63,593	-
Customer deposits	13,124,858	13,016,604	108,254	12,924,055	12,890,331	33,724
Borrowings	1,124,110	1,116,250	7,860	1,240,908	1,231,487	9,421
Total			**(36,261)**			**(85,298)**

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank			**2012 HRK 000**			**2011 HRK 000**
	Carrying amount	**Fair value**	**Unrecognised gains/(losses)**	**Carrying amount**	**Fair value**	**Unrecognised gains/(losses)**
Cash and amounts due from banks	1,129,940	1,129,940	-	1,090,184	1,090,184	-
Obligatory reserve with Croatian National Bank	1,231,884	1,231,884	-	1,246,649	1,246,649	-
Loans to and receivables from banks	749,811	747,661	(2,150)	1,294,448	1,291,395	(3,053)
Financial assets at fair value through profit or loss	513,224	513,224	-	363,577	363,577	-
Financial assets available for sale	1,296,101	1,296,101	-	1,371,174	1,371,174	-
Financial assets held to maturity	685,417	594,001	(91,416)	687,072	579,916	(107,156)
Loans and receivables from customers	10,678,855	10,636,467	(42,388)	9,622,149	9,622,149	-
Financial liabilities at fair value through profit or loss	370	370	-	2,580	2,580	-
Deposits from banks	509,518	506,097	3,421	63,593	63,593	-
Customer deposits	12,939,403	12,839,657	99,746	12,702,164	12,677,794	24,370
Borrowings	1,124,110	1,116,104	8,006	1,240,908	1,231,487	9,421
Total			**(24,781)**			**(76,418)**

47. PRIVATIZATION AND RECAPITALIZATION OF THE BANK

Croatian Ministry of Finance, as the current majority shareholder of the Bank having a share of 51 percent in equity, had on September 19 2012 initiated a tender aiming to select a consultant for Bank's privatization and recapitalization processes. Consultant was chosen on November 16 2012.

Up to the approval of these financial statements by the Bank's Management Board, privatization and recapitalization processes are pending.

Balance sheet as at December 31 2012

	2012 HRK 000	2011 HRK 000
Cash and balances with the CNB	2,184,973	2,271,408
-- Cash	440,661	544,383
-- Deposits with the CNB	1,744,312	1,727,025
Deposits with banking institutions	630,496	1,201,114
Treasury bills of the Ministry of Finance and the CNB bills	367,060	588,096
Securities and other financial instruments held for trading	509,914	261,787
Securities and other financial instruments available for sale	915,025	859,043
Securities and other financial instruments held to maturity	676,438	679,222
Securities and other financial instruments at fair value through profit or loss - not actively traded	-	-
Derivative financial assets	806	2,973
Loans to financial institutions	369,005	202,024
Loans to other customers	10,530,147	9,495,343
Investments in subsidiaries, associates and joint ventures	75,541	75,541
Foreclosed assets	149,544	104,183
Tangible assets (less depreciation)	151,908	155,785
Interest, fees and other assets	497,526	557,028
TOTAL ASSETS	**17,058,383**	**16,453,547**
LIABILITIES		
Borrowings from financial institutions	1,122,004	1,237,190
- short-term borrowings	68,284	67,506
- long-term borrowings	1,053,720	1,169,684
Deposits	12,193,476	11,392,930
- giro and current account deposits	2,591,197	2,552,222
- savings deposits	1,128,631	1,112,519
- term deposits	8,473,648	7,728,189
Other borrowings	-	-
- short-term borrowings	-	-
- long-term borrowings	-	-
Derivative financial and other liabilities held for trading	370	2,580
Issued debt securities	-	-
- short-term debt securities issued	-	-
- long-term debt securities issued	-	-
Subordinated debt issued	-	-
Issued hybrid instruments	401,742	601,638
Interest, fees and other liabilities	1,929,806	1,963,806
TOTAL LIABILITIES	**15,647,398**	**15,198,144**
EQUITY		
Share capital	1,193,902	1,193,902
Profit/(Loss) for the year	94,063	87,924
Retained earnings / (Accumulated losses)	71,347	(12,823)
Legal reserves	3,755	-
Statutory and other capital reserves	2,119	2,165
Unrealised gains/(losses) on revaluation of financial assets available for sale	45,799	(15,765)
Hedging reserve	-	-
TOTAL EQUITY	**1,410,985**	**1,255,403**
TOTAL LIABILITIES AND EQUITY	**17,058,383**	**16,453,547**

Income Statement for the period January 01 – December 31 2012

	2012 HRK 000	2011 HRK 000
Interest income	883,382	867,728
Interest expense	(431,448)	(400,027)
Net interest income	**451,934**	**467,701**
Fee and commission income	539,207	570,599
Fee and commission expense	(369,004)	(390,047)
Net fee and commission income	**170,203**	**180,552**
Gains/(losses) on investments in subsidiaries, associates and joint ventures	-	-
Trading gains/(losses)	44,733	19,484
Gains/(losses) on embedded derivatives	-	-
Gains/(losses) on assets at fair value through profit or loss not actively traded	-	-
Gains / (losses) on available-for-sale assets	4,224	862
Gains / (losses) on held-to-maturity assets	-	-
Hedging gains/(losses)	-	-
Income from investments in subsidiaries, associates and joint ventures	-	-
Income from other equity investments	3,067	4,333
Foreign exchange gains/(losses)	4,250	10,489
Other income	49,866	34,540
Other expenses	(36,152)	(53,507)
General and administrative expenses, and depreciation	(430,072)	(446,951)
Net profit from operations before provisions and impairment losses	**262,053**	**217,504**
Impairment losses and provisions	(168,291)	(135,108)
PROFIT OR LOSS BEFORE TAXATION (146-147)	**93,762**	**82,396**
INCOME TAX EXPENSE	301	5,528
PROFIT / LOSS FOR THE YEAR	**94,063**	**87,924**
Earnings per share	107.14	100.15

Changes in equity during 2012

Bank	Share capital HRK 000	Treasury shares HRK 000	Legal, statutory and other reserves HRK 000	Retained profit / (Accumulated losses) HRK 000	Profit /loss for the year HRK 000	Unreal. gains /losses on remeasurement of financial assets available for sale HRK 000	Total equity HRK 000
Balance at 1 January 2012	**1,194,776**	**(874)**	**2,165**	**(12,822)**	**87,924**	**(15,765)**	**1,255,404**
Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-	**-**
Restated balance at 1 January 2012	1,194,776	(874)	2,165	(12,822)	87,924	(15,765)	1,255,404
Disposal of financial assets available for sale	-	-	-	-	-	-	**-**
Change in the fair value of financial assets available for sale	-	-	-	-	-	76,955	**76,955**
Tax on items recognised directly in/transferred from equity	-	-	(69)	-	-	(15,391)	**(15,460)**
Other gains and losses recognised directly in equity	-	-	23	-	-	-	**23**
Net gains/losses recognised directly in equity	**-**	**-**	**(46)**	**-**	**-**	**61,564**	**61,518**
Profit /loss for the year	-	-	-	-	94,063	-	94,063
Total recognised income and expenses for 2012	**-**	**-**	**(46)**	**-**	**94,063**	**61,564**	**155,581**
Increase/decrease in share capital	-	-	-	-	-	-	-
Purchase/sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transferred to reserves	-	-	3,755	84,169	(87,924)	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocation	**-**	**-**	**3,755**	**84,169**	**(87,924)**	**-**	**-**
Balance at 31 December 2012	**1,194,776**	**(874)**	**5,874**	**71,347**	**94,063**	**45,799**	**1,410,985**

Changes in equity during 2011

Bank	Share capital HRK 000	Treasury shares HRK 000	Legal, statutory and other reserves HRK 000	Retained profit / (Accumulated losses) HRK 000	Profit /loss for the year HRK 000	Unreal. gains /losses on remeasurement of financial assets available for sale HRK 000	Total equity HRK 000
Balance at 1 January 2011	**1,194,776**	**(874)**	**5,643**	**(63,658)**	**50,836**	**3,316**	**1,190,038**
Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-	**-**
Restated balance at 1 January 2011	1,194,776	(874)	5,643	(63,658)	50,836	3,316	1,190,038
Disposal of financial assets available for sale	-	-	-	-	-	-	**-**
Change in the fair value of financial assets available for sale	-	-	-	-	-	(23,851)	(23,851)
Tax on items recognised directly in/transferred from equity	-	-	880	-	-	4,770	5,650
Other gains and losses recognised directly in equity	-	-	(4,358)	-	-	-	(4,358)
Net gains/losses recognised directly in equity	**-**	**-**	**(3,478)**	**-**	**-**	**(19,081)**	**(22,559)**
Profit /loss for the year	-	-	-	-	87,924	-	87,924
Total recognised income and expenses for 2011	**-**	**-**	**(3,478)**	**-**	**87,924**	**(19,081)**	**65,365**
Increase/decrease in share capital	-	-	-	-	-	-	-
Purchase/sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transferred to reserves	-	-	-	50,836	(50,836)	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocation	-	-	-	**50,836**	**(50,836)**	**-**	**-**
Balance at 31 December 2011	**1,194,776**	**(874)**	**2,165**	**(12,822)**	**87,924**	**(15,765)**	**1,255,404**

Cash flows for the year 2012

	2012	2011
	HRK 000	HRK 000
OPERATING ACTIVITIES		
Operating cash flows before changes in operating assets	**325,611**	**290,538**
Profit/loss before taxation	93,762	82,396
Impairment losses and provisions	171,972	130,528
Depreciation and amortisation	58,453	61,922
Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss	5,063	21,908
Gains/losses on sale of tangible assets	-	-
Other gains/losses	(3,639)	(6,216)
Net (increase) / decrease in operating assets	**(1,441,475)**	**(1,192,342)**
Treasury bills of the Ministry of Finance and the CNB bills	221,036	214,304
Deposits with banking institutions and loans to financial institutions	(158,973)	92,349
Loans to other customers	(1,173,206)	(971,208)
Securities and other financial instruments held for trading	(253,190)	116,552
Securities and other financial instruments available for sale	10,607	(618,206)
Other operating assets	(87,749)	(26,133)
Net increase/decrease in operating liabilities	**738,911**	**1,642,195**
Demand deposits	38,975	275,557
Savings and term deposits	761,571	823,564
Derivative financial and other liabilities held for trading	(2,210)	2,178
Other liabilities	(59,424)	540,896
Net cash flow from operations before income tax	**(376,953)**	**740,392**
Income taxes paid	**-**	-
Net cash inflow/outflow from operating activities	**(376,953)**	**740,392**
INVESTING ACTIVITIES		
Net cash from investing activities	**(39,034)**	**(167,045)**
Proceeds from sale/(Payments for purchases) of tangible and intangible assets	(42,884)	(42,562)
Proceeds from sale of/Payments for investments in subsidiaries, associates and joint ventures	-	20,000
Proceeds from/(Payments to acquire) securities and other financial instruments held to maturity	783	(148,816)
Dividends received	3,067	4,333
FINANCING ACTIVITIES		
Net cash from financing activities	**(317,198)**	**(49,658)**
Net increase/decrease in borrowings	(116,798)	(49,658)
Net increase/(decrease) in subordinated debt and hybrid instruments	(200,400)	-
Proceeds from issuance of share capital	-	-
Net increase/decrease in cash and cash equivalents	**(733,184)**	**523,689**
Effect of changes in foreign exchange rates on cash and cash equivalents	1,160	1,818
Net increase/decrease in cash and cash equivalents	**(732,024)**	**525,507**
Cash and cash equivalents at the beginning of the year	**3,506,075**	**2,980,568**
Cash and cash equivalents at the end of the year	**2,774,051**	**3,506,075**

Reconciliation of the balance sheet as at 31 December 2012

	CNB requirements HRK 000	Per Financial Statements HRK 000	Difference HRK 000
Cash and balances with the CNB			
-- Cash	440,661	-	440,661
-- Deposits with the CNB	1,744,312	-	1,744,312
Cash and amounts due from banks	-	1,129,940	(1,129,940)
Obligatory reserve with Croatian National Bank	-	1,231,884	(1,231,884)
Deposits with banking institutions	630,496	-	630,496
Loans to and receivables from banks	-	749,811	(749,811)
Treasury bills of the Ministry of Finance and the CNB bills	367,060	-	367,060
Securities and other financial instruments held for trading	509,914	-	509,914
Financial assets at fair value through profit or loss	-	513,224	(513,224)
Securities and other financial instruments available for sale	915,025	-	915,025
Financial assets available for sale	-	1,296,101	(1,296,101)
Securities and other financial instruments held to maturity	676,438	-	676,438
Financial assets held to maturity	-	685,417	(685,417)
Securities and other financial instruments at fair value through profit or loss not actively traded	-	-	-
Derivative financial assets	806	-	806
Loans to financial institutions	369,005	-	369,005
Loans to other customers	10,530,147	-	10,530,147
Loans and receivables from customers	-	10,678,855	(10,678,855)
Investments in subsidiaries, associates and joint ventures	75,541	-	75,541
Assets held for sale	-	21,551	(21,551)
Investments in subsidiaries	-	53,990	(53,990)
Foreclosed assets	149,544	-	149,544
Tangible assets (less depreciation)	151,908	-	151,908
Property and equipment	-	146,299	(146,299)
Intangible assets	-	194,967	(194,967)
Deferred tax assets, net	-	21,241	(21,241)
Interest, fees and other assets	497,526	-	497,526
Other assets	-	322,173	(322,173)
TOTAL ASSETS	**17,058,383**	**17,045,453**	**12,930**

Reconciliation of the balance sheet as at 31 December 2012 (continued)

LIABILITIES	**Under CNB requirements HRK 000**	**Per Financial Statements HRK 000**	**Difference HRK 000**
Financial liabilities at fair value through profit or loss	-	370	(370)
Borrowings from financial institutions			
Short-term borrowings	68,284	-	68,284
Long-term borrowings	1,053,720	-	1,053,720
Borrowings	-	1,124,110	(1,124,110)
Deposits			
Giro and current account deposits	2,591,197	-	2,591,197
Savings deposits	1,128,631	-	1,128,631
Term deposits	8,473,648	-	8,473,648
Deposits from banks	-	509,518	(509,518)
Deposits from customers	-	12,939,403	(12,939,403)
Other borrowings			
Short-term borrowings	-	-	-
Long-term borrowings	-	-	-
Derivative financial and other liabilities held for trading	370	-	370
Issued debt securities			
Short-term debt securities issued	-	-	-
Long-term debt securities issued	-	-	-
Subordinated debt issued	-	-	-
Issued hybrid instruments	401,742	-	401,742
Hybrid instruments	-	410,148	(410,148)
Provisions for liabilities and expenses	-	56,522	(56,522)
Deferred tax liabilities, net	-	-	-
Interest, fees and other liabilities	1,929,806	-	1,929,806
Other liabilities	-	594,397	(594,397)
TOTAL LIABILITIES	**15,647,398**	**15,634,468**	**12,930**
EQUITY			
Share capital	1,193,902	966,640	227,262
Capital gains	-	228,136	(228,136)
Treasury shares	-	(874)	874
Profit /(loss) for the year	94,063	-	94,063
Retained earnings / (Accumulated losses)	71,347	166,285	(94,938)
Legal reserves	3,755	3,755	-
Other reserves	-	-	-
Statutory and other capital reserves	2,119	-	2,119
General banking risk reserve	-	-	-
Revaluation reserve	-	1,244	(1,244)
Unrealised gains/losses on revaluation of financial assets available for sale	45,799	45,799	-
Hedging reserve	**-**	**-**	**-**
TOTAL EQUITY	**1,410,985**	**1,410,985**	**-**
TOTAL LIABILITIES AND EQUITY	**17,058,383**	**17,045,453**	**12,930**

Reconciliation of the balance sheet at 31 December 2012

1 The foreign currency balance with foreign banks in the amount of HRK 158,472 thousand is included in the regulatory statements under the CNB Decision in Deposits with banking institutions and in the statutory financial statements it is reported within Cash and amounts due from banks.

2 The foreign currency balance with domestic banks in the amount of HRK 855 thousand is included in the regulatory financial statements under the CNB Decision in Deposits with banking institutions and in the statutory financial statements it is reported within Cash and amounts due from banks.

3 The amount of HRK 530,056 thousand is included in the regulatory statements under the CNB Decision in Deposits with the CNB and in the statutory financial statements it is reported within Cash and amounts due from banks.

4 Reclassification of deposits held with non-banking financial institutions in the amount of HRK 363 thousand (accounts 5214) from the item Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans to and receivables from banks in the financial statements.

5 Reclassification of the HBOR loan in the amount of HRK 271,676 thousand from Loans to financial institutions in the balance sheet per the CNB regulatory requirements to Loans to and receivables from banks in the financial statements.

6 Reclassification of receivables from interest accruals not yet due in the amount of HRK 53,123 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements into the following line items in the financial statements: HRK 235 thousand to Loans to and receivables from banks; HRK 2,504 thousand to Financial assets at fair value through profit or loss; HRK 14,000 thousand to Financial assets available for sale; HRK 8,717 thousand to Financial assets held to maturity; and HRK 27,667 thousand to Loans and receivables from customers.

7 Of the interest accruals due in the amount of HRK 32,616 thousand included in the in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets, HRK 8 thousand are reclassified in the financial statements to Obligatory reserve with CNB, HRK 32,592 thousand into Loans and receivables from customers, and HRK 15 thousand to Financial assets available for sale.

8 Portfolio based provisions are included in the balance sheet per the CNB regulatory requirements in Deposits with the CNB in the amount of HRK 17,619 thousand, Deposits with the banking institutions in the amount of HRK 6,369 thousand, Securities and other financial instruments held to maturity in amount of 6,820, Loans to financial institutions in the amount of HRK 3,727 thousand, Loans to other customers in amount of HRK 88,053 thousand and Interest, fees and other assets in the amount of HRK 1,613 thousand. On the other hand,this item is presented in the financial statements as impairment allowance within Loans to and receivables from customers in total amount of HRK 117,643 thousand, and Financial assets held to maturity in amount of HRK 6.558 thousand.

9 Treasury bills of the Ministry of Finance in the amount of HRK 367,060 thousand are included in the balance sheet per the CNB regulatory requirements in Treasury bills issued by the Ministry of Finance and CNB bills, whereas in the financial statements they are included in financial assets available for sale.

10 Intangible assets in the amount of HRK 194,967 thousand are included in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets, and in the financial statements in Intangible assets.

11 Reclassification of HRK 806 thousand from Derivative financial instrument per the CNB regulatory requirements to Financial assets at fair value through profit or loss in the financial statements.

12 Reclassification of loans to other and non-banking financial institutions in the amount of HRK 101,057 thousand reported in the balance sheet per the CNB regulatory requirements within Loans to financial institutions to Loans to and receivables from banks in the financial statements.

13 Reclassification of credit card receivables in the amount of HRK 17,110 thousand (accounts 14811 and 1471) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans to and receivables from customers in the financial statements.

14 Reclassification of impairment losses on credit card receivables in the amount of HRK 128 thousand (account 1493) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans and receivables from customers in the financial statements.

15 Deferred tax assets in the amount of HRK 34,064 thousand included in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets reclassified to Deferred tax assets, net, in the financial statements.

16 Netting-off of the deferred tax liability in the amount of HRK 12,823 thousand within Interest, fees and other liabilities in the balance sheet per the CNB regulatory requirements and its inclusion in Deferred tax assets, net, in the financial statements.

17 Foreclosed assets in the amount of HRK 149,544 thousand included in the balance sheet per the CNB regulatory requirements in Foreclosed assets are included in the financial statements in Other assets.

18 Reclassification of the stock of office supplies of HRK 5,609 thousand from Tangible assets (less depreciation) in the balance sheet per the CNB regulatory requirements to Other assets in the financial statements.

19 Investment in H1 telekomd.d. in the amount of HRK 21,551 thousand is included in the balance sheet per the CNB regulatory requirements in Investments in subsidiaries, associates and joint ventures, whereas in the financial statements it is reported within Assets held for sale.

20 Reclassification of long-term borrowings of HRK 1,053,720 thousand from Borrowings from financial institutions in the balance sheet per the CNB regulatory requirements into Borrowings in the financial statements.

21 Derivative financial liabilities and other financial liabilities held for trading in the total amount of HRK 370 thousand reported in the balance sheet per the CNB regulatory requirements within Financial liabilities at fair value through profit or loss are reclassified in the financial statements to Financial liabilities at fair value through profit or loss.

22 Accrued interest payable not yet due in the amount of HRK 95,500 thousand, included in the balance sheet per the CNB regulatory requirements in Interest, fees and other liabilities are reclassified to the following items in the financial statements: HRK 1,598 thousand to Borrowings, HRK 3,493 thousand to Deposits from banks; HRK 82,004 thousand to Customer deposits; and HRK 8,405 thousand to Hybrid instruments.

23 Accrued interest payable due in the amount of HRK 509 thousand, included in the balance sheet per the CNB regulatory requirements in Interest, fees and other liabilities are reclassified to the following items in the financial statements: HRK 508 thousand to Borrowings, HRK 1 thousand to Customer deposits.

24 Reclassification of temporary transfers for the purpose of investing in domestic companies' share capital in the amount of HRK 695 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Customer deposits in the financial statements.

25 Reclassification of HRK 102 thousand of retail balances in course of settlement (CNB account 2690) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Cash and amounts due from banks in the financial statements.

26 Reclassification of Restricted deposits in the total amount of HRK 1,169,255 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Customer deposits in the financial statements.

27 Reclassification of Provisions for liabilities and expenses of HRK 56,522 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Provisions for liabilities and expenses in the financial statements.

28 The items Giro and current account deposits in the amount of HRK 2,591,197 thousand, Savings deposits in the amount of HRK 1,128,628 thousand and Term deposits in the amount of HRK 8,473,648 thousand in the balance sheet per the CNB regulatory requirements are reported in the financial statements as follows: HRK 506,025 thousand within Deposits from banks and HRK 11,687,449 within Customer deposits.

29 Reclassification of HRK 228,136 thousand from Share capital in the balance sheet per the CNB regulatory requirements to Capital gains in the financial statements.

30 Treasury shares in the amount of HRK 874 thousand are shown in the financial statements as a deduction from share capital.

31 Reclassification of HRK 94,063 thousand from Profit for the year in the balance sheet per the CNB regulatory requirements to Retained earnings/(Accumulated losses) in the financial statements.

32 Reclassification of the treasury share reserve in the amount of HRK 874 thousand from item Statutory and other capital reserves in the balance sheet per the CNB regulatory requirements to Retained earnings/(Accumulated losses) in the financial statements.

33 Reclassification of HRK 1,244 thousand from Statutory and other capital reserves in the balance sheet per the CNB regulatory requirements to Revaluation reserve in the financial statements.

Reconciliation of the income statement for the year 2012

	CNB requirements HRK 000	Per financial statements HRK 000	Difference HRK 000
Interest income	883,382	883,236	146
Interest expense	(431,448)	(409,970)	(21,478)
Net interest income	**451,934**	**473,266**	**(21,332)**
Fee and commission income	539,207	539,207	-
Fee and commission expense	(369,004)	(369,004)	-
Net fee and commission income	**170,203**	**170,203**	**-**
Gains less losses arising from securities at fair value through profit or loss and held for trading	-	6,961	(6,961)
Gains less losses arising from securities available for sale	-	4,224	(4,224)
Gains less losses arising from dealing in foreign currencies	-	37,772	(37,772)
Other operating income	-	38,277	(38,277)
Operating income	-	**730,703**	-
Other non-interest income	106,140	-	106,140
Other non-interest expenses	(36,152)	-	(36,152)
Other non-interest income, net	**69,988**	-	**69,988**
Net non-interest income	**240,191**	-	**240,191**
General and administrative expenses, and depreciation	(430,072)	(464,969)	34,897
Net operating income before provisions and impairment losses	**262,053**	-	**262,053**
Impairment losses on loans and receivables to customers and other assets	-	148,755	(148,755)
Provisions for liabilities and expenses	-	23,217	(23,217)
Operating expenses	-	**636,941**	**(636,941)**
Impairment losses and provisions	(165,010)	-	(165,010)
Provisions for portfolio based impairment losses	(3,281)	-	(3,281)
Total provisions for impairment losses	**168,291**	-	**168,291**
Profit/loss before taxation	**93,762**	**93,762**	**-**
Income tax expense	301	301	-
Profit /loss for the year	**94,063**	**94,063**	**-**
Earnings per share	**107.14**	**107.14**	**-**

Reconciliation of the income statement for the year 2012

1 Reconciliation of foreign exchange differences

Net foreign exchange differences in the amount of HRK 146 thousand are included in the income statement per the CNB regulatory requirements within Interest income and in the annual financial statements they are reported within Other operating income.

Net foreign exchange differences in the amount of HRK 410 thousand are included in the income statement per the CNB regulatory requirements within Impairment losses and provisions and in the financial statements they are reported within Other operating income.

Net foreign exchange differences in the amount of HRK 66 thousand are included in the income statement per the CNB regulatory requirements within Interest expense and in the financial statements they are reported within Other operating income.

Exchange differences in the amount of HRK 4,250 thousand on retranslation of the balance sheet at the middle exchange rate are included in the income statement per the CNB regulatory requirements in Other non-interest income whereas in the financial statements they are reported within Other operating income.

Exchange differences in the amount of HRK 413 thousand on impairment losses (accounts 6409 and 6419) included in the income statement per the CNB regulatory requirements within Impairment losses and provisions are reclassified in the financial statements to Other operating income.

Exchange differences in the amount of HRK 37,772 thousand from foreign currency dealings, which are included in the income statement per the CNB regulatory requirements within Other non-interest income are included in the financial statements in Gains less losses arising from dealing in foreign currencies.

2 Reclassification of HRK 21,554 thousand of the insurance premium expense from Interest expense in the income statement per the CNB regulatory requirements to General and administrative expenses and depreciation.

3 Reclassification of HRK 4,224 thousand arising from realized gains on financial assets available for sale from Other non-interest income in the income statement per the CNB regulatory requirements to Gains less losses arising from financial instruments available for sale in the financial statements.

4 Gains less losses arising from financial instruments at fair value through profit or loss in the amount of HRK 2,669 thousand reported in the income statement per the CNB regulatory requirements are included in the financial statements in Other non-interest income.

5 Gains on derivative financial instrument trading in the amount of HRK 4,262 thousand included in the income statement per the CNB regulatory requirements in Other non-interest income are reported in the financial statements in Gains less impairment losses on securities at fair value through profit or loss and held for trading.

6 The amount of HRK 3,067 thousand of dividends received are included in the income statement per the CNB regulatory requirements in Other non-interest income whereas in the financial statements it is included in Other operating income.

7 The amount of HRK 31,529 thousand (other income accounts 68 less balances on accounts 68010, 6885 and income from reversal of provisions on accounts 6881 and 6882) included in the income statement per the CNB regulatory requirements within Other non-interest income is captured in the financial statements within Other operating income.

8 The amount of HRK 15,739 thousand (income from provisions reversal, account 6882) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in General and administrative expenses.

9 The amount of HRK 453 thousand (income from reversal of provisions - accounts 6881, 68810) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in Provisions for liabilities and expenses.

10 The amount of HRK 2,103 thousand (income from reversal of provisions - account 68804) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in Provisions for liabilities and expenses.

11 The amount of HRK 17,256 thousand (accounts 627) included in the income statement per the CNB regulatory requirements in Other non-interest income is presented in financial statements in General and administrative expenses.

12 The amount of HRK 11,836 thousand (accounts 634, 635 and 6311) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in General and administrative expenses.

13 The amount of HRK 7,061 thousand (accounts 633 and 638) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements under Provisions for liabilities and expenses.

14 The amount of HRK 42 thousand (income from the sale of foreclosed assets) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in Other operating income.

15 Reclassification of the amount of HRK 143,416 thousand (account 647) from Impairment losses and provisions for identified losses in the income statement per CNB regulatory requirements to Impairment losses on loans to and receivables from customers and other assets in the financial statements.

16 Reclassification of the amount of HRK 5,339 thousand from Provisions for portfolio based impairments in the income statement per the CNB regulatory requirements to Impairment losses on loans to and receivables from customers and other assets in the financial statements.

17 Reclassification of income amounting to HRK 2,058 thousand from the item Provisions for portfolio based impairment losses on off-balance sheet exposure in the income statement per the CNB regulatory requirements to Provisions for liabilities and expenses in the financial statements.

18 Reclassification of provisions for off-balance sheet exposures in the amount of HRK 20,771 thousand included in the income statement per the CNB regulatory requirements within Impairment losses and provisions to Provisions for liabilities and expenses in the financial statements.

Reconciliation of the Statement of Changes in Equity for the year 2012

Bank	**Share capital HRK 000**	**Treasury shares HRK 000**	**Legal, statutory and other reserves HRK 000**	**Retained profit / (Accumulated losses) HRK 000**	**Profit /loss for the year HRK 000**	**Unreal. gains /losses financial assets available for sale HRK 000**	**Total equity HRK 000**
Balance at 1 January 2012	**1,194,776**	**(874)**	**2,165**	**(12,822)**	**87,924**	**(15,765)**	**1,255,404**
Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-	**-**
Restated balance at 1 January 2012	1,194,776	(874)	2,165	(12,822)	87,924	(15,765)	1,255,404
Disposal of financial assets available for sale	-	-	-	-	-	-	**-**
Change in the fair value of financial assets available for sale	-	-	-	-	-	76,955	**76,955**
Tax on items recognised directly in/transferred from equity	-	-	(69)	-	-	(15,391)	**(15,460)**
Other gains and losses recognised directly in equity	-	-	23	-	-	-	**23**
Net gains/losses recognised directly in equity	**-**	**-**	**(46)**	**-**	**-**	**61,564**	**61,518**
Profit /loss for the year	-	-	-	-	94,063	-	94,063
Total recognised income and expenses for 2012	**-**	**-**	**(46)**	**-**	**94,063**	**61,564**	**155,581**
Increase/decrease in share capital	-	-	-	-	-	-	-
Purchase/sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transferred to reserves	-	-	3,755	84,169	(87,924)	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocatioin	**-**	**-**	**3,755**	**84,169**	**(87,924)**	**-**	**-**
Balance at 31 December 2012	**1,194,776**	**(874)**	**5,874**	**71,347**	**94,063**	**45,799**	**1,410,985**

Items: Legal reserve; General banking risk reserve, Revaluation reserve and Other reserves from the financial statements are presented in the statement of changes in equity per CNB's regulatory requirements in Legal, statutory and other reserves.

Retained earnings from the Annual Report are presented within Retained earnings/(Accumulated losses), Profit/(loss) for the year.

Reconciliation of cash flows for the year 2012

	CNB requirements HRK 000	Per Financial Statements HRK 000	Difference HRK 000
Cash flows from operating activities			
Profit before taxation	93,762	93,762	-
Adjusted by:			
- Depreciation and amortisation	58,453	58,453	-
- Foreign exchange (gains)/ losses	(3,639)	(3,639)	-
- Impairment losses on loans and receivables to customers and other assets	-	148,755	(148,755)
- Impairment losses on provisions for liabilities and expenses	-	23,217	(23,217)
Impairment losses and provisions	171,972	-	171,972
- Gains less losses from financial assets at fair value through profit or loss	5,063	5,063	-
Changes in operating assets and liabilities			
Net increase in loans to and receivables from customers	-	(138,685)	138,685
Net decrease in financial assets at fair value through profit or loss	-	(154,710)	154,710
Treasury bills of the Ministry of Finance and the CNB bills	221,036	-	221,036
Deposits with banking institutions and loans to financial institutions	(158,973)	-	(158,973)
Loans to other customers	(1,173,206)	-	(1,173,206)
Securities and other financial instruments held for trading	(253,190)	-	(253,190)
Securities and other financial instruments available for sale	10,607	-	10,607
Net (increase)/decrease in loans to and receivables from customers	-	(1,195,108)	1,195,108
Net (increase)/decrease in other assets	(87,749)	(87,749)	-
Net (decrease)/increase in deposits from banks	-	445,925	(445,925)
Net increase/(decrease) in deposits from customers	-	237,239	(237,239)
Net increase/(decrease) in other liabilities	-	48,863	(48,863)
Demand deposits	38,975	-	38,975
Savings and term deposits	761,571	-	761,571
Derivative financial and other liabilities held for trading	(2,210)	-	(2,210)
Other liabilities	(59,424)	-	(61,540)
Net cash inflow from operating activities before tax	**-**	**(518,615)**	**518,615**
Income taxes paid	-	-	**-**
Net cash generated from operating activities	**-**	**(518,615)**	**518,615**
Cash flows from investing activities			
Investments in subsidiaries	-	-	**-**
Investments in associates	-	-	**-**
Purchases of property, plant, equipment and intangible assets	(42,884)	(42,884)	**-**
Disposal of financial assets available for sale	-	534,996	(534,996)
Acquisition of financial assets available for sale	-	(393,334)	393,334
Net disposal/(acquisition) of financial assets held to maturity	783	783	-
Dividends received	3,067	3,067	-
Net cash inflow/(outflow) from investing activities	**-**	**102,628**	**(102,628)**
Cash flows from financing activities			
Increase in hybrid instruments	(200,400)	(200,400)	-
Increase in borrowings	-	1,034,798	(1,034,798)
Repayments of borrowings	-	(1,151,596)	1,151,596
Net increase/decrease in borrowings	(116,798)	-	(116,798)
Proceeds from issuance of share capital	-	-	**-**
Net cash inflow from financing activities	**-**	**(317,198)**	**317,198**
Effect of foreign exchange differences on cash and cash equivalents	1,160	1,160	-
Net increase/(decrease) in cash and cash equivalents	**(732,024)**	**(732,024)**	**-**
Cash and cash equivalents at the beginning of the year	**3,506,075**	**3,506,075**	**-**
Cash and cash equivalents at the end of the year	**2,774,051**	**2,774,051**	**-**

1. Reclassification of HRK 171,972 thousand from Impairment losses and provisions in the cash flow statement per the CNB regulatory requirements into the following items in the financial statements: HRK 148,775 thousand to Impairment losses on loans and receivables from customers and other assets, and HRK 23,217 thousand to Provisions for liabilities and expenses.

2. Reclassification of HRK 221,036 thousand from Treasury bills issued by the Ministry of finance and CNB bills, HRK 158,973 thousand from Deposits and loans to financial institutions, HRK 1,173,206 thousand from Loans to other customers, HRK 253,190 of Securities and other financial instruments held for trading, HRK 10,607 of Securities and other financial instruments available for sale, HRK 38,975 thousand of Demand deposits, HRK 761,571 thousand of Savings and term deposits, HRK 2,210 thousand of Financial derivatives and other financial liabilities held for trading, HRK 59,424 thousand of Other liabilities, from the cash flow statement as per the CNB reporting requirements to the following items in the financial statements: HRK 138,685 thousand to Net increase/decrease in loans and receivables from banks; HRK 154,710 thousand to Net (increase)/decrease in financial assets at fair value through profit or loss; HRK 1,195,108 thousand to Net (increase)/decrease in loans and receivables from customers; HRK 445,925 thousand to Net (decrease)/increase in deposits from banks; HRK 237,239 thousand to Net (decrease)/increase in deposits from customers; HRK 48,863 thousand to Net (decrease)/increase in other liabilities; and HRK 534,996 to Disposal of financial assets available for sale and HRK 393,334 thousand to Acquisition of financial assets available for sale.

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